



INVESTMENT POLICY STATEMENT
State of Connecticut Retirement Plans & Trust Funds

Investment Policy Statement

for the

State of Connecticut

Retirement Plans & Trust Funds



Denise L. Nappier

Treasurer of the State of Connecticut

Adopted by Treasurer Nappier 10/3/07
Approved by the Investment Advisory Council 10/10/07



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INVESTMENT ADVISORY COUNCIL

A RESOLUTION

BE IT RESOLVED:

Whereas Denise L. Nappier, Treasurer of the State of Connecticut, prepared a Draft Amendment to the **Investment Policy Statement** and made such Draft Amendment available to the public, giving notice of such availability in newspapers with general circulation throughout the State of Connecticut, in accordance with the provisions of Section 3-13b(c)(1) of the Connecticut General Statutes;

Whereas the Treasurer then presented the Investment Advisory Council ("IAC") with a Draft Amendment to the Investment Policy Statement, which was discussed at its duly called September 12, 2007 meeting, and

Whereas the Treasurer officially adopted said Investment Policy Statement on October 3, 2007, considering additional comments made by the IAC at its meeting of September 12, and

Whereas the Treasurer has presented said Amendment to the IAC for consideration at its duly called meeting on October 10, 2007,

Now Therefore We, the appointed members of the IAC, do hereby approve the Treasurer's Adopted Amendment to the Investment Policy Statement.

The Minutes of the meeting held this 10th day of October, 2007, shall reflect the following vote on the resolution:

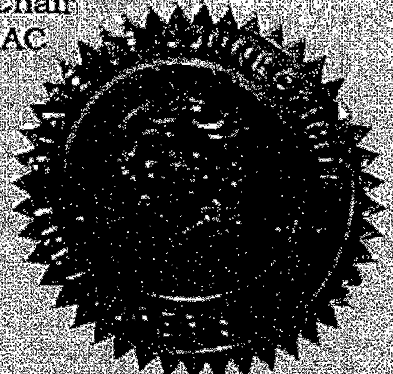
Yea 8 Nay — 0 — Abstention —
Absent Not Voting 2

INVESTMENT ADVISORY COUNCIL

By James T. Larkin
James T. Larkin, Chair
On Behalf of the IAC

Adopted, the 3rd day of October

Denise L. Nappier
Denise L. Nappier, State Treasurer





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Article I. Introduction

- A. This Investment Policy Statement (“IPS”) sets forth the general principles that govern the investments of the State of Connecticut retirement plans and trust funds as established by the Treasurer of the State of Connecticut (“the Treasurer”), and as approved by the Investment Advisory Council (“IAC”), in accordance with the provisions of subsection (c) of Section 3-13b of the Connecticut General Statutes. Currently these retirement plans and trusts funds include the
1. State Employees’ Retirement Fund,
 2. Teachers’ Retirement Fund,
 3. Connecticut Municipal Employees’ Retirement Fund,
 4. Probate Judges and Employees Retirement Fund,
 5. State Judge’s Retirement Fund,
 6. State’s Attorneys’ Retirement Fund,
 7. Soldiers’, Sailors’ and Marines’ Fund,
 8. Arts Endowment Fund,
 9. Agricultural College Fund,
 10. Ida Eaton Cotton Fund,
 11. Andrew C. Clark Fund,
 12. School Fund,
 13. Hopemead Fund, and
 14. Police and Firemen Survivors’ Benefit Fund.
- B. Collectively, these Connecticut retirement plans and trust funds may be referred to as the “CRPTF”. Specifically, this document addresses the following issues with respect to each plan and trust:
1. Investment objectives;
 2. Asset allocation policy and risk tolerance;
 3. Asset class definitions, including specific types of permissible investments within each asset class and any specific limitations or other considerations governing the investment of any funds;
 4. Investment manager guidelines;
 5. Investment performance evaluation guidelines;
 6. Guidelines for the selection and termination of providers of investment-related services; and
 7. Guidelines for corporate citizenship and proxy voting.
- C. This policy statement is an outline of each of the CRPTF’s long-term strategic plans based on analysis of the capital markets and the financial condition of each plan and trust of the CRPTF. In formulating this policy statement, the Treasurer has sought to allow for sufficient flexibility to capture investment opportunities as they occur, while maintaining reasonable parameters to ensure that prudence and care



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are exercised in the execution of the CRPTF investment program. In the final analysis, the Treasurer must exercise the authority consistent within the principles of fiduciary law.

- D. The Treasurer will review this policy statement on an annual basis with the IAC. Proposed changes to the IPS will be submitted to the IAC for review in accordance with the provisions of Section 3-13b(c) of the Connecticut General Statutes.



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Article II. Governing Authority, Duties, and Responsibilities

- A. Pursuant to the Connecticut General Statutes, the Treasurer is the principal fiduciary of the CRPTF. Responsibilities in this regard are governed by fiduciary law and standards, and by the Constitution and laws of the State of Connecticut.

In this role, it is incumbent upon the Treasurer to discharge the responsibilities with respect to the CRPTF:

1. In the interest of the participants and beneficiaries;
 2. For the purpose of providing benefits to participants and beneficiaries and paying reasonable expenses of administering the CRPTF;
 3. With the care, skill and caution under the circumstances then prevailing which a prudent person acting in a like capacity and familiar with those matters would use in the conduct of like character and purpose;
 4. Impartially, taking into account any differing interests of participants and beneficiaries;
 5. Incurring only costs that are appropriate and reasonable;
 6. In accordance with a good-faith interpretation of the law governing the retirement program and the CRPTF¹; and
 7. Taking into consideration the Connecticut General Statutes that require elements of corporate citizenship and the implications of particular investments on foreign policies and the national interests of the United States be factored into investment decision-making;
 8. By allowing the Treasurer to consider the “social, economic and environmental implications of investments of trust funds in particular securities or types of securities” (Section 3-13d of the Connecticut General Statutes).
- B. In carrying out these responsibilities, and as an elected Constitutional Officer of the State of Connecticut, the Treasurer is responsible for the investment and custody of all CRPTF assets and the selection of and contracting with all money managers, investment managers and professional consultants. Unless waived by a vote of the IAC, the IAC has up to 45 days to review and comment on any proposed contract for investment services prior to the Treasurer’s execution of a contract. The Treasurer shall on a regular basis report to the IAC regarding overall investment policy, as well as specific investment strategies and opportunities. The Treasurer shall review with the IAC, on an annual basis, the status of the asset allocation plan for the CRPTF, and shall report at each IAC meeting as to the status of the CRPTF investments.

¹Uniform Management of Public Employee Retirement Systems Act, Section 7 (1997).



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- C. In fulfilling these obligations, the Treasurer will seek recommendations from the Chief Investment Officer and outside investment professionals, and will seek approval from the IAC for:
1. Changes in investment policies, asset allocation, and asset allocation ranges;
 2. The inclusion of new asset classes in the investment policy;
 3. The development and implementation of new investment strategies; and
 4. The development of investment guidelines for each asset class.
- D. With regard to any proposed change, inclusion of, or development of, the items listed above, the following process shall be followed:
1. The proposed plan changes and recommendation will be presented by the Treasurer at a regularly scheduled IAC meeting.
 2. Consideration for approval shall be taken up at the next following regularly scheduled IAC meeting.
 3. The Treasurer's recommendation shall be deemed approved if it receives a majority vote of the public IAC members' vote to approve.
 4. In the event the Treasurer's recommendation is not approved, there will be no changes to the existing appendix.
 5. If a majority of the members appointed to said council fails to approve such recommendations, said majority shall provide the reasons for its failure to approve to the Treasurer who may submit an amended proposal at the next regularly scheduled meeting of the IAC.
 6. The approved changes shall be posted on the Treasurer's website and a revised appendix shall be made part of this IPS.
- E. The Treasurer may retain money managers, investment managers and professional consultants to assist in the management of the assets held by the CRPTF and, in so doing, has the obligation to exercise prudence and care in selecting, instructing and supervising such providers of investment and investment related services. As stated previously, and consistent with Section 3-13i of the Connecticut General Statutes, before the retention of any such money manager, investment manager or professional consultant, the Treasurer will present a recommendation to the IAC for its consideration. After such presentation, unless waived by a vote of the IAC, the IAC will have up to 45 days to review and comment upon any proposed contract for investment advisory services prior to the execution of such a contract by the Treasurer.
- F. In the event the preconditions described in Section 3-13d of the Connecticut General Statutes are met with respect to a "lame duck" period, the IAC shall assume the Treasurer's principal fiduciary authority for investment decisions in the "Private Equity" and "Real Estate" asset classes until such time that the duly elected Treasurer is officially sworn into office.



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Article III. Investment Objectives

- A. Each of the plans and trusts will have an investment objective as individually described in Part II of this IPS and as specifically delineated in the asset allocation guidelines, found in Appendix “A”, Section I of this document, as approved by the IAC September 13, 2006. The financial objectives of the CRPTF are long term in nature and have been established based on a comprehensive review of the capital markets and the underlying plans’ and funds’ current and projected financial requirements. The Treasurer adheres to the principle which maintains that over the long term, prudent investment risk-taking may be rewarded with higher incremental returns. Consequently, while capital preservation is regarded to be of paramount importance, the Treasurer regards prudent risk-taking as justifiable.



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Article IV. Asset Allocation

- A. The asset mix for each of the CRPTF is established by the Treasurer, with approval of the IAC, based on (1) capital market theory, (2) financial and fiduciary requirements, and (3) liquidity needs.
- B. Numerous studies have shown that 90% of the variability in performance is the result of the strategic asset allocation decision. The strategic asset allocation decision, or how much to invest in any particular asset class, is arrived at by undergoing an asset/liability study in which the particular pension or trust fund's liability characteristics are considered.
- C. A broad array of asset classes is considered for inclusion in a potential asset allocation structure. Each asset class has its own distinct characteristics, as well as expectations for long term return and risk behavior. Mathematical modeling is used to determine which mix of asset classes maximizes return at each level of risk. In addition to the asset allocation policy then in place, several alternative asset mixes are selected for further analysis. The liabilities or trust distribution needs are modeled in detail and projections are made based on the actuarial assumptions underlying each of the retirement plans and trusts. The behavior of both the asset classes and the liabilities are tested under different economic scenarios using sophisticated simulation software. The outcomes of these tests are then examined to determine which asset mix offers a balanced risk/return tradeoff as measured by the impact on the liabilities over multiple time horizons.
- D. Changes in asset allocation targets and their ranges are expected to occur infrequently. Revisions of these targets will be proposed only when it is clear that significant changes have occurred in the demographics of the participant group and/or in the capital markets such that assumptions upon which the present allocations have been made no longer appear reasonable. Any material changes necessary would be pursuant to the findings of a subsequent and periodic asset/liability study of the CRPTF, as determined by the Treasurer in consultation with the IAC. Accordingly, money and investment managers should pursue a strategy of being fully invested in the market consistent with the foregoing guidelines and Investment Management Agreement (IMA) to ensure that cash-equivalent positions do not interfere with the asset allocation strategy. In addition, in order to meet liquidity needs, the Treasurer may direct that dividends and interest income from money and investment managers' accounts be swept into a liquidity fund, or may establish a separate liquidity strategy depending upon the cash flow needs of the various plans and trusts.
- E. Because different asset classes will perform at various rates, the Treasurer will monitor asset allocation on a monthly basis to determine and ensure rebalancing is appropriately implemented.



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Article V. Asset Class Definitions

A. Detailed descriptions of the asset classes, including the specific types of permissible investments within each asset class, and special limitations or other considerations governing the investment of any funds therein, are set forth in Part III of this policy statement, and the appendices attached to this IPS.

B. Liquid Portfolio

The liquid portfolios include the

1. Mutual Equity Fund (MEF),
2. Developed Market International Stock Fund (DMISF),
3. Emerging Market International Stock Fund (EMISF),
4. Core Fixed Income Fund (CFIF),
5. Inflation-Linked Bond Fund (ILBF),
6. Emerging Market Debt Fund (EMDF),
7. High Yield Bond Fund (HYBD), and
8. Liquidity Fund (LF).

Any future assets class recommended by the Treasurer and approved by the IAC will be added. The liquid portfolios contain a diverse spectrum of securities, including, but not limited to, cash, fixed-income and equities.

Each fund is described in Part III of this policy and in Appendix “A”, Section II. Permissible investment classes are generally outlined in this section. Further, each fund includes a benchmark, which holds the universe of permissible investments. Finally, as part of the manager search, the Treasurer will include specific permissible investments that support the manager style and objective.

C. Illiquid Portfolios

1. Real Estate Fund: Real Estate investments are defined as indirect² ownership interests in professionally managed commercial properties and land. This definition includes, but is not limited to, retail, office, industrial, apartment, multifamily, hotel, timberland, and farmland properties and investments in Real Estate Investment Trusts (“REITs”).
2. Private Investment Fund: Private investments will be in externally managed separate accounts, limited liability companies or limited partnerships, which

² At the time of the adoption of this IPS, there are a small number of direct real estate ownership interest investments. As these properties are sold or otherwise transferred out of the fund, no new additional direct real estate investments will be made.



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focus on private equity investments. Private equity investments include corporate finance and venture capital.

3. **Alternative Investment Fund (“AIF”):** The AIF provides a vehicle for investment in portfolio strategies which are not easily classified, categorized, or described in the other investment funds. Hybrid strategies which contain multiple asset classes would also be considered part of the opportunity set.



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Article VI. Use of Derivatives

- A. Derivative instruments are defined as any contract or investment vehicle whose performance, risk characteristics or value is based on a specific asset, interest rate or index value. Derivative instruments may be used for any of the purposes listed below.
1. To gain broad stock or bond market exposure in a manner that does not create the effect of leverage in the overall portfolio.
 2. To convert financial exposure in a given currency to that of another currency (e.g., to hedge Japanese Yen exposure back to the U.S. dollar). Any and all international managers (equities and fixed income) may enter into foreign exchange contracts on currency provided that: a) such contracts are one year or less; and b) use of such contracts is limited solely and exclusively to hedging currency exposure existing within such money manager's portfolio. There shall be no foreign currency speculation or any related investment activity, except by currency hedging managers, who will be guided by specific risk parameters in their contracts.
 3. To adjust the duration of a bond portfolio in a manner that is consistent with the accepted approach of the money manager and other policies and guidelines as are provided to the money manager.
 4. To make portfolio adjustments that are consistent with other elements of the CRPTF's investment policies and guidelines and that do not systematically increase risk or the expected volatility of the rate-of-return of the total portfolio.
 5. For trading purposes intended to enhance investment returns, subject to the requirement that the other elements of the CRPTF's investment policies and guidelines are met and there is no systematic increase in the risk or the expected volatility of the rate-of-return of the total portfolio.
- B. All other uses of derivatives are prohibited unless specifically approved by the Treasurer, and endorsed by the IAC. Money managers are expected to have internal risk management programs in place to ensure that derivatives-based strategies do not result in inappropriate risks to the portfolio.



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Article VII. Investment Diversification

- A. Investments shall be diversified in order to minimize the risk of large losses. Consequently, the CRPTF will be constructed and maintained to provide prudent diversification among the asset classes in accordance with the asset allocation policy. Within each asset class, there shall be prudent diversification with regard to the concentration of holdings in individual issues, corporations, partnerships or industries. Investments shall comply with the provisions of the Connecticut General Statutes Section 3-13d³, Section 3-13g⁴, Section 3-13h⁵ and Section 3-21e⁶, and any subsequent modification or revision to Connecticut State Statutes that affect the management of the CRPTF. Part III of this IPS, which describes each of the Combined Investment Funds, specifically delineates the particular investment guidelines and restrictions for each Fund.

³ Pertaining to the consideration of political implications of particular investments in relation to U.S. foreign policy and national interests.

⁴ Pertaining to the investments in corporations doing business in Iran.

⁵ Pertaining to the divestment of State funds invested in corporations doing business in Northern Ireland that have not implemented the “MacBride” principles.

⁶ Pertaining to Divestment of state funds invested in companies doing business in Sudan.



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Article VIII. Guidelines for the Selection and Termination of Providers of Investment-Related Services

- A. The Treasurer will prudently select money managers, investment managers and professional consultants based on their respective expertise relative to the investment mandate they seek to fulfill or the investment service they seek to provide.
- B. In general, the selection process will entail the following processes:
 - 1. A competitive bidding process as defined by the State's procurement and purchasing laws and standards, or, where appropriate and practicable, the use of a pre-determined uniform system for evaluating proposals and for otherwise determining the merits of an investment advisor within the industry. The standard by which any and all selection procedures are determined should not impede the Treasurer's ability to compete in the marketplace for high quality investment-related services; and
 - 2. A thorough due diligence process which establishes an understanding of and comfort level with the firm's capabilities, organization, track record, institutional expertise, and investment philosophy (where relevant).
 - 3. A consideration of the firm's diversity policies and practices, corporate responsibility and citizenship.
- C. It will be required to disclose any third party fees paid, as defined in Section 3-13j of the Connecticut General Statutes and other required disclosures in force and effect at the time of the selection process.
- D. Before the retention of any money manager, investment manager, or professional consultant, the Treasurer will present a recommendation(s) to the IAC for consideration. After such presentation, unless waived by a vote of the IAC, the IAC will have up to 45 days to review and comment upon any proposed contract prior to the execution of a contract by the Treasurer.
- E. Any decision to terminate a money manager or investment manager will be consistent with the terms and conditions set out in the contract entered into with the CRPTF by and through the Treasurer, and be consistent with Article XI, Performance Evaluation as it relates to the Watch List. The Treasurer shall report on the decision to the IAC at the next regularly scheduled meeting.



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Article IX. Money Manager Structure

- A. The number of money managers or investment managers retained will be minimized subject to considerations regarding reasonable and prudent levels of risk and diversification. The guidelines used to construct the team of managers will include:
- B. Liquid Portfolio
 - 1. Size of Portfolio – to minimize investment fees, portfolios (regardless of asset class) will generally be a minimum of \$100 million and should not constitute more than 20% of the money manager's assets under management, provided that the Treasurer acting in consultation with the IAC may develop programs intended to encourage the development of money managers who demonstrate the capacity to add value to the CRPTF, but may not have the requisite amount of assets under management.
 - 2. Number of Portfolios – for diversification purposes, all asset classes representing more than 3% of the Fund will have at least two managers.
 - 3. Style of Management – for any asset class with two or more money managers, there will be diversification by investment style (e.g., growth vs. value).
- C. Illiquid Portfolios
 - 1. The asset classes designated as “illiquid” include Private Investment Funds, Real Estate Funds and Alternative Investment Fund. Each investment that falls within these asset classes will be evaluated on a case-by-case basis. The size of the investment shall take into consideration the terms and conditions of the overall investment opportunity. Use of multiple investment managers and styles within each of these portfolios is expected to increase diversification and reduce risk.
 - 2. With regard to private equity and real estate managers, the CRPTF seeks to retain investment management organizations that possess superior capabilities in the selection and management of real estate assets. With this objective in mind, prospective investment management organizations shall be evaluated for selection based on criteria including, but not limited to: (i) the suitability of the organization's investment offerings relative to the Fund's investment guidelines and objectives; (ii) the quality, stability, integrity and experience of the management team; (iii) the ability and willingness of the organization to dedicate sufficient resources and personnel to optimally manage the Fund's investments; (iv) the reasonableness of investment terms and conditions including provisions to align interests of management and CRPTF; (v) the ability to produce complete audited financial records; and (vi) commitment to responsible contracting policies, workplace diversity and community involvement.



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D. Additional Criteria

1. The criteria for the selection of managers in each asset category will vary according to the needs of each mandate and asset category. Those criteria are described more fully within each article of Part III of this IPS.
2. Investment and money managers will not be allowed to accumulate a significant cash position without prior approval of the Treasurer's office. In general, "significant" means an amount in excess of the manager's contractual maximum.
3. It is the expressed intent of the Treasurer to afford opportunities for emerging, minority and women-owned and Connecticut-based investment and money managers to compete for investment contracts so long as such managers are fully capable of providing services consistent with investment strategy and fiduciary standards. The Treasurer, in consultation with the IAC, may develop specific programs within several asset classes to effectuate this opportunity.
4. At present, one such initiative is the Connecticut Horizon Fund. The guidelines developed on all current and future initiatives should be consistent with the overall strategic direction of the combined funds.



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Article X. Liquidity

- A. Based on such factors as investment strategy, cash flow and benefit payments, the Treasurer will determine the appropriate allocation to cash equivalents in order to meet the pension plans and trust funds' liquidity needs in the near term. Liquidity requirements will be reviewed regularly to ensure that each of the CRPTF's policies and practices are structured so as to accommodate changing liquidity needs.



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Article XI. Performance Evaluation

- A. The Treasurer shall regularly monitor investment performance at the plan and trust level, asset class, and individual money and investment manager levels. The Treasurer will analyze results relative to the rates of return available over the market cycle. For performance evaluation purposes, rate of return objectives will be based on a time-weighted total return calculation. These return objectives will be long term in nature, based upon compounded and annualized market returns, adjusted for the money and investment manager's risk and style, and will be examined on a net-of-fees and expenses basis.
- B. A report of investment performance will be prepared quarterly and submitted to the Treasurer for review and shall be reported to the IAC. The CRPTF's custodian will confirm or reconcile its performance data with the money and investment managers. On the asset class and individual money and investment manager levels, the Treasurer will use designated benchmarks and the investment guidelines as essential parts of the criteria to monitor investment performance. As mentioned previously, the specific guidelines unique to each money and investment manager will be developed by the Treasurer or her designees and the money or investment manager and incorporated into the investment management contract executed between the Treasurer and such money or investment manager. In the case of a conflict between a manager's specific guidelines and the general guidelines of the fund, the former shall prevail. The Treasurer, or a designee, will periodically hold meetings with individual money and investment managers to review performance. Money and investment managers will make presentations before the IAC, as the IAC may request.
- C. The horizon for reviewing a money manager's performance is long-term. Periodically, it may be necessary and in the best interests of the CRPTF to place a money or investment manager on the Treasurer's "Watch List." Any of the following conditions can trigger placement on the Watch List:
1. The money or investment manager significantly under-performs its benchmark;
 2. The money or investment manager experiences turnover of key members of its investment professional staff;
 3. The CRPTF becomes aware of a significant event affecting the money or investment manager (such as, but not limited to, a change of control, a large quarterly loss, the disclosure of SEC or other federal investigations or inquiries into the money or investment manager's operations); or
 4. Any other event that could affect the money or investment manager's ability to perform its investment management responsibilities for the CRPTF.



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- D. Once a money or investment manager is placed on the Watch List, the situation triggering such placement will be reviewed by the Treasurer and/or the Chief Investment Officer. This review will entail a comprehensive analysis of the situation through various means, such as site visits, conference calls, assessment of the likely impact of the situation, etc. If such analysis does not alleviate the Treasurer's concerns, a decision will be made whether to (a) continue to monitor the money or investment manager's performance or (b) terminate the money or investment manager.
- E. The Treasurer shall inform the IAC of any decision to place a money or investment manager on the "Watch List," and thereafter shall report quarterly to the IAC on the status of the issues that led to placement of such money or investment manager on the "Watch List" or any action taken related to the money or investment manager by the Treasurer.



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Article XII. CRPTF’s Guidelines for Corporate Citizenship and Proxy Voting

- A. In accordance with State law, the Treasurer may consider elements of corporate citizenship when making investment decisions on behalf of the CRPTF. [§3-13d(a) “social, economic and environmental implication of investments”] “Corporate citizenship” encompasses the principle that, in addition to the traditional corporate focus on profits and short-term performance, the business community must be responsible for “long-term sustainable development of people and communities.”⁷ Corporate citizenship is an important criterion in the evaluation of companies, in which the Treasurer invests, as well as the companies with which the Treasurer contracts to provide business services.
- B. Investments and Corporate Citizenship
1. Investments made or handled by the Treasurer should adhere to strict guidelines on fiduciary investment prudence and corporate citizenship, including corporate governance and equal employment opportunity, as are set by the Treasurer and by State and federal law. Prudence and the consideration of corporate citizenship are complementary goals [as recognized by State law]. Primary among the Treasurer’s considerations for the investment of the pension plans and trusts is the prudent investment of these assets for the long-term economic benefit of plan participants and beneficiaries. Prudent investment includes considerations of performance, risk and return. In addition , State law states that the Treasurer may consider the social, economic, and environmental implications of its investments, including the CRPTF investment in particular securities or types of securities (See Section 3-13d (a) of the Connecticut General Statutes).
 2. Section 3-13d (a) of the Connecticut General Statutes also directs the Treasurer to consider the implications of particular investments in relation to the foreign policy and the national interests of the United States. Additionally, Sections 3-13(g) and 3-13(h) of the Connecticut General Statutes prohibit investments in companies that do not implement the MacBride principles or companies that are doing business in Iran which could be considered contrary to the foreign policy or national interests of the United States.
 3. Section 3-21e authorizes the Treasurer to divest from or prohibit investment in any company doing business in Sudan, where the company’s activities warrant such action based on statutory criteria. The Treasurer will incorporate all future modifications and revisions of the Connecticut General Statutes into the investment process to ensure compliance.

⁷ Investor Responsibility Research Center, Washington, D.C.



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C. CRPTF Diversity Principles

1. The CRPTF require a wide array of banking, money management and consultative services, and the Treasurer seeks to do business with financial service providers that demonstrate evidence of good corporate citizenship. Some of the key considerations include a commitment to the State of Connecticut through the hiring of Connecticut employees or the procurement of corporate goods and services from Connecticut-based firms. Other considerations include reinvestment in local communities, the extent of charitable giving and opportunities for students through scholarships or internships. The Treasurer will also consider a firm's employment practices including its hiring, promotion, and training of women and minority employees as well as general employee relations. Other concerns include each firm's policies on environmental compliance and consumer protections.
2. The Treasurer will require all vendors and contractors to submit annual reports on the firm's progress in implementing employment and corporate citizenship policies. Information on employment and corporate citizenship policies and activities will be included in all Requests for Services or Requests for Proposals. All contracts with vendors and contractors shall incorporate reference to the various laws and executive orders of the State of Connecticut with respect to non-discrimination.
3. These Diversity Principles can be found in Appendix "C" as an addendum to this Investment Policy Statement.

D. CRPTF Policy on Proxy Voting

1. Shareholder activity is among the fiduciary duties of the Treasurer as trustee of the CRPTF assets. Plan fiduciaries have a responsibility to vote proxies on issues that may affect the value of the shares held in a portfolio since proxies are considered plan assets and have economic value.
2. Accordingly, the Treasurer may determine, where appropriate, that certain shareholder activities, such as the active monitoring and communication with corporate management, should be undertaken to enhance the economic value of the plan assets. Such circumstances for shareholder activity should be considered appropriate when investments are expected to be held on a long-term basis.
3. The Treasurer has developed proxy-voting guidelines, which can be found in Appendix "B" to this IPS. Any delegation of proxy voting by the Treasurer, either to external money managers or to a proxy voting service shall be consistent with any such guidelines developed.



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Article XIII. Ongoing Supervision of Assets

- A. It is the Treasurer's obligation and responsibility to carry out the day-to-day administration of the CRPTF. Consequently, the Treasurer is expected to establish written procedures for the CRPTF's operation consistent with this IPS. Such procedures shall include a system of internal controls, which shall be documented in writing.
- B. Review of Liabilities: As part of any comprehensive asset allocation/liability study conducted by the Treasurer, all major liability assumptions regarding number of participants, compensation, benefit levels, and actuarial assumptions will be reviewed based upon information provided by each plan's actuaries.
- C. Review of Investment Objectives: Investment performance will be reviewed no less often than quarterly by the Treasurer to determine the continued feasibility of achieving the investment objectives and the appropriateness of this IPS for achieving those objectives.
- D. This IPS is not expected to change frequently. In particular, short-term changes in the financial markets deemed to be temporary in nature should not require any formal adjustments to the IPS.
- E. Review of Money and Investment Managers: Where appropriate, individual money and investment managers will be provided with written investment guidelines providing additional detail on applicable investment strategies, clarification of permissible investments, investment restrictions and performance evaluation criteria.
- F. Money and investment managers will be reviewed annually unless they demonstrate poor performance or have material changes in personnel or their investment process, in which case more frequent reviews may be scheduled. (See Article XI for more information on conditions that would warrant placement of money or investment manager on the "Watch List.") Additionally, with or without money or investment managers being present, the money or investment manager's investment results will be reviewed monthly.
- G. Performance reviews will generally include:
 - 1. Assurance that each money or investment manager adheres to applicable investment guidelines, which are created within the parameters of this IPS.
 - 2. Comparison of each money or investment manager's results to those of similar money or investment managers in terms of style, diversification, volatility, and performance.
 - 3. Risk analysis of portfolio investment strategies versus comparable indices.



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4. Review of material changes in the money or investment manager's organization, investment philosophy, personnel, investment process, acquisition or losses of major accounts, etc.
 5. Analysis of the opportunities available in each money or investment manager's designated asset class.
- H. Money and investment managers will be responsible for keeping the Treasurer advised of any material changes in personnel, investment strategy, or other pertinent information, which could potentially affect their performance or their relationship with the CRPTF.
- I. **Execution of Security Trades:** The Treasurer expects the purchase and sale of securities to be made in a manner designed to receive the best combination of price, execution, commissions, and value added. The Treasurer has the responsibility to structure the brokerage program in a cost-effective manner, whether execution is undertaken by external managers or by the Office of the Treasurer. In addition, it is the Treasurer's intention to structure any brokerage program as to afford qualified Connecticut, emerging, minority-owned and women-owned firms the opportunity to compete for brokerage business, consistent with standards of best price, execution and quality of service noted above.



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Article XIV. Other Policy Considerations

- A. Third party banks are utilized for the safekeeping of the CRPTF assets, holding the CRPTF assets in custody, valuing plan investments, engaging in securities lending activities and maintaining accurate records of all investments and transactions. All such third party banks will take direction from the Treasurer or a designee.
- B. Portfolio execution is conducted through designated investment money managers. Money managers are responsible for implementing investment strategies, security selections and the timing of purchases and sales within the guidelines set forth in this IPS, the asset allocation plan and any applicable supplemental investment manager guidelines. Money managers are also responsible for executing the Treasurer's directives.
- C. Use of Investment Vehicles, in addition to investments in individual securities, such as commingled trusts, mutual funds and other pooled asset portfolios are acceptable investment vehicles, provided they conform to the applicable guidelines and restrictions set forth in this IPS.
- D. Under-Served Urban and Rural Markets: While maintaining the principles of prudent investment standards and seeking market returns, the CRPTF may, as a matter of policy, channel a portion of its investments (as agreed to by the Treasurer in consultation with the IAC) into under-served urban and rural markets with a special interest in investment opportunity targeted in Connecticut; at the same time achieving any necessary geographical diversification.
- E. Deviations from investment policy may occur as a result of new or unique investment opportunities, which are not specifically addressed in this IPS, as may become available from time to time. The Treasurer may deviate from this policy from time to time, after approval by the IAC, provided that any and all such deviations will enhance the CRPTF's long-term performance and not jeopardize the standards of prudence for the CRPTF as a whole.



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Introduction

- A. The asset allocation composition for each retirement plan and trust fund of the CRPTF shall be approved by the IAC, shall be made an appendix to this IPS and posted on the Website of the Office of the State Treasurer.
- B. Appendix Approval Process

With regard to subsequent changes to any sub-asset allocation composition, the following process shall be followed.

1. The proposed plan changes and recommendations will be presented by the Treasurer at a regularly scheduled IAC meeting.
2. Consideration for approval shall be taken up at the next following regularly scheduled IAC meeting.
3. The Treasurer's recommendation shall be deemed approved if it receives a majority of the public IAC members' vote to approve.
4. In the event the Treasurer's recommendation is not approved, there will be no changes to the existing appendix.
5. If a majority of the members appointed to said council fails to approve such recommendations, said majority shall provide the reasons for its failure to approve to the Treasurer who may submit an amended proposal at the next regularly scheduled meeting of the IAC.
6. The approved changes shall be posted on the Treasurer's website, and a revised appendix shall be made part of this IPS.



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Article I. Teacher’s Retirement Fund

A. Investment Authority

The Teacher’s Retirement Fund (“TERF”) was established by Public Act 78-208. Fund administration is overseen by The Teachers’ Retirement Board, which is within the Office of the State Comptroller for administrative purposes only.

The TERF assets are overseen by the Treasurer (as principal fiduciary of the CRPTF) and are invested in accordance with applicable statutory requirements and fiduciary standards. (See Sections 3-13c and 3-13d of the Connecticut General Statutes.)

B. Statement of Purpose

Public Act 78-208 established the TERF for the purposes of providing retirement and other benefits to teachers, their survivors and beneficiaries that have fulfilled the requirements as set forth in the TERF guidelines and Sections 10-160 to 10-180b of the Connecticut General Statutes.

C. Investment Objectives

The TERF’s primary investment objective is to provide a secure source of retirement income for its beneficiaries. The TERF’s objectives are long term in nature and have been established based on a comprehensive review of the capital markets and the underlying current and projected financial requirements as determined through an asset/liability study.

D. Asset Allocation

The TERF’s asset mix is established by the Treasurer and the IAC based on (1) capital market theory, (2) the TERF’s financial requirements and (3) the TERF’s liquidity needs. As noted in the introduction of Part II, Appendix Approval Process, the asset allocation will be updated from time to time and posted on the Treasurer’s Website.



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Article II. State Employees' Retirement Fund

A. Investment Authority

The State Employees' Retirement Fund ("SERF") was authorized by Public Act 234 of the 1961 General Assembly, and is codified in Section 5-156 et seq. of the Connecticut General Statutes. Beginning in 1981, the SERF terms and conditions have been the subject of collective bargaining between the State and a coalition of bargaining units representing state employees, commonly known as SEBAC. Fund administration is overseen by the Office of the State Comptroller and the State Employees Retirement Commission.

The SERF assets are overseen by the Treasurer (as principal fiduciary of the CRPTF) and are invested in accordance with applicable statutory requirements and fiduciary standards. (See Sections 3-13c and 3-13d of the Connecticut General Statutes.)

B. Statement of Purpose

Public Act 61-234 re-stated the State Employees Retirement Act and reaffirmed the SERF as the entity that would provide retirement and other benefits to State employees, their survivors and beneficiaries who have fulfilled the requirements as set forth in the SERF guidelines, and as negotiated with SEBAC.

C. Investment Objectives

The SERF's primary investment objective is to provide a secure source of retirement income for its beneficiaries. The SERF's financial objectives are long term in nature and have been established based on a comprehensive review of the capital markets and the underlying current and projected financial requirements, as determined through an asset/liability study.

D. Asset Allocation

The SERF's asset mix shall be established by the Treasurer and the IAC based on (1) capital market theory, (2) the SERF's financial requirements and (3) the SERF's liquidity needs. As noted in the introduction of Part II, Appendix Approval Process, the asset allocation will be updated from time to time and posted on the Treasurer's website.



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Article III. Connecticut Municipal Employees' Retirement Fund

A. Investment Authority

The Connecticut Municipal Employees' Retirement Fund ("CMERF") was established by Public Act 191(s. 2) of the 1969 General Assembly. Fund administration is overseen by the Office of the State Comptroller.

The assets of the CMERF are overseen by the Treasurer (as principal fiduciary of the CRPTF) and are invested in accordance with applicable statutory requirements and fiduciary standards. (See Sections 3-13c and 3-13d of the Connecticut General Statutes.)

B. Statement of Purpose

Public Act 69-191(s. 2) established the CMERF for the purposes of providing retirement and other benefits to employees and their beneficiaries of participating municipal and local governmental units. The retirement plan permits municipalities with a small number of employees to get the benefit of the so-called "law of averages" by pooling their contributions with those of other municipalities. This pooling of retirement asset by participating municipalities reduces the risk of excessive cost to an individual municipality because of actuarial vagaries in that municipality. CMERF also takes advantage of economies of scale in its investment strategies and assures that the benefits will be uniform among the participating municipalities.

C. Investment Objectives

The CMERF's primary investment objective is to provide a secure source of retirement income for its beneficiaries. The CMERF's financial objectives are long-term in nature and have been established based on a comprehensive review of the capital markets and its underlying current and projected financial requirements, as determined through an asset/liability study.

D. Asset Allocation

The CMERF's asset mix is established by the Treasurer and the IAC based on (1) capital market theory, (2) the CMERF's financial requirements and (3) the CMERF's liquidity needs. As noted in the introduction of Part II, Appendix Approval Process, the asset allocation will be updated from time to time and posted on the Treasurer's website.



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Article IV. Probate Judge and Employees Retirement Fund

A. Investment Authority

The Probate Court Retirement Fund (“PROB”) was established by Public Act 558(s. 40) of the 1967 General Assembly. Fund administration is through the State Employees Retirement Commission and the Office of the State Comptroller.

The assets of the PROB are overseen by the Treasurer (as principal fiduciary of the CRPTF) and are invested in accordance with applicable statutory requirements and fiduciary standards. (See Sections 3-13c and 3-13d of the Connecticut General Statutes.)

B. Statement of Purpose

Public Act 67-191(s. 40) established the PROB for the purposes of providing retirement and other benefits to Judges of Probate and Probate Court employees and their beneficiaries.

C. Investment Objectives

The primary investment objective of the PROB is to provide a secure source of retirement income for its beneficiaries. The PROB’s financial objectives are long term in nature and have been established based on a comprehensive review of the capital markets and its underlying current and projected financial requirements, as determined through an asset/liability study.

D. Asset Allocation

The PROB’s asset mix shall be established by the Treasurer and the IAC based on (1) capital market theory, (2) the PROB’s financial requirements and (3) the PROB’s liquidity needs. As noted in the introduction of Part II, Appendix Approval Process, the asset allocation will be updated from time to time and posted on the Treasurer’s website.



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Article V. State Judges Retirement Fund

A. Investment Authority

The State Judges Retirement Fund (“JURF”) was established by Public Act 81-456(S, 5). Fund administration is through the State Employees Retirement Commission and the Office of the State Comptroller.

The assets of the JURF are overseen by the Treasurer (as principal fiduciary of the CRPTF) and are invested in accordance with applicable statutory requirements and fiduciary standards. (See Sections 3-13c and 3-13d of the Connecticut General Statutes.)

B. Statement of Purpose

The JURF was established for the purposes of providing retirement and other benefits to state judges, family support magistrates, and workers compensation commissioners and their beneficiaries who have fulfilled the requirements set forth in the JURF guidelines.

C. Investment Objectives

The primary investment objective of the JURF is to provide a secure source of retirement income for its beneficiaries. The JURF’s financial objectives are long term in nature and have been established based on a comprehensive review of the capital markets and its underlying current and projected financial requirements, as determined through an asset/liability study.

D. Asset Allocation

The JURF’s asset mix shall be established by the Treasurer and the IAC based on (1) capital market theory, (2) the JURF’s financial requirements and (3) the JURF’s liquidity needs. As noted in the introduction of Part II, Appendix Approval Process, the asset allocation will be updated from time to time and posted on the Treasurer’s website.



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Article VI. State’s Attorneys’ Retirement Fund

A. Investment Authority

The State’s Attorneys’ Retirement Fund (“SARF”) was established by Public Act 84-399(S.9.17) Fund administration is through the State Employees Retirement Commission and the Office of the State Comptroller.

The assets of the SARF are overseen by the Treasurer (as principal fiduciary of the CRPTF) and are invested in accordance with applicable statutory requirements and fiduciary standards. (See Sections 3-13c and 3-13d of the Connecticut General Statutes.)

B. Statement of Purpose

The SARF was established for the purposes of providing retirement and other benefits to certain states attorneys and certain public defenders and their beneficiaries who have fulfilled the requirements set forth in the SARF guidelines.

C. Investment Objectives

The SARF’s primary investment objective is to provide a secure source of retirement income for its beneficiaries. The SARF’s financial objectives are long term in nature and have been established based on a comprehensive review of the capital markets and its underlying current and projected financial requirements, as determined through an asset/liability study.

D. Asset Allocation

The SARF’s asset mix shall be established by the Treasurer and the IAC based on (1) capital market theory, (2) the SARF’s financial requirements and (3) the SARF’s liquidity needs. As noted in the introduction of Part II, Appendix Approval Process, the asset allocation will be updated from time to time and posted on the Treasurer’s website.



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Article VII. Policemen and Firemen Survivors' Benefit Fund

A. Investment Authority

The Policemen and Firemen Survivors' Benefit Fund ("POFI") was established by Public Act 390 of the 1963 General Assembly. Fund administration is through the State Employees Retirement Commission and the Office of the State Comptroller.

The assets of the POFI are overseen by the Treasurer (as principal fiduciary of the CRPTF) and are invested in accordance with applicable statutory requirements and fiduciary standards. (See Sections 3-13c and 3-13d of the Connecticut General Statutes.)

B. Statement of Purpose

The POFI was established for the purposes of providing retirement and other benefits to participants and their beneficiaries who have fulfilled the requirements set forth in the POFI guidelines.

C. Investment Objectives

The POFI's primary investment objective is to provide a secure source of retirement income for its beneficiaries. The POFI's financial objectives are long-term in nature and have been established based on a comprehensive review of the capital markets and its underlying current and projected financial requirements, as determined through an asset/liability study.

D. Asset Allocation

The POFI's asset mix shall be established by the Treasurer and the IAC based on (1) capital market theory, (2) the POFI's financial requirements, and (3) the POFI's liquidity needs, as specified in Article IV of Part I of this IPS. Prior to May 27, 1999, this fund's assets were required to be invested in group insurance policies or group annuity contracts. With the adoption of Public Act 99-70, the Treasurer was given the flexibility to take advantage of all the investment opportunities available through the CRPTF asset allocation plan. As noted in the introduction of Part II, Appendix Approval Process, the asset allocation will be updated from time to time and posted on the Treasurer's website.



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Article VIII. Agricultural College Fund

A. Investment Authority

The Agricultural College Fund (“AGRI”) is described in Section 10a-115 and 3-40 of the Connecticut General Statutes.

The assets of the AGRI are overseen by the Treasurer (as principal fiduciary of the CRPTF) and are invested in accordance with applicable statutory requirements and fiduciary standards. (See Sections 3-13c and 3-13d of the Connecticut General Statutes.)

B. Statement of Purpose

The AGRI dates back to 1862 when it was received as proceeds from the sale of federal land granted to the States from the federal government. The beneficiary of the congressional grant became the University of Connecticut School of Agriculture, with the income from the assets “inviolably appropriated for teaching; principally, the science of agriculture and the mechanical arts.” The Treasurer annually transfers a distribution to the University of Connecticut.

C. Investment Objectives

The primary investment objective of the AGRI is to provide a secure source of income from a principal amount that would last in perpetuity. The AGRI’s financial objectives are long term in nature and have been established based on a comprehensive review of the capital markets and its underlying current and projected requirements.

The Treasurer adheres to the principles of capital market theory, which maintains that over the long term, prudent investment risk-taking is rewarded with incremental returns. Consequently, while capital preservation is regarded to be of paramount importance, the Treasurer regards prudent risk-taking as justifiable.

The investment objectives for AGRI are as follows:

1. To provide a satisfactory current stream of income given current dollars invested;
2. To maintain the fund corpus by minimizing erosion of principal due to inflation;
3. To maximize returns within reasonable and prudent levels of risk; and
4. To maintain adequate cash levels to meet the fund’s distribution requirements.



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While there cannot be complete assurance that these objectives will be achieved, it is believed that the probability of their realization is reasonably high based upon this IPS and expected performance of the asset classes discussed in Article IV of Part I of this IPS.

D. Asset Allocation

The AGRI's asset mix shall be established by the Treasurer and the IAC based on (1) capital market theory, (2) the AGRI's financial requirements and (3) the AGRI's liquidity needs. As noted in the introduction of Part II, Appendix Approval Process, the asset allocation will be updated from time to time and posted on the Treasurer's website.



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Article IX. Andrew C. Clark Fund

A. Investment Authority

The Andrew C. Clark Fund (“ACCF”) was established by Public Act 261 of the Connecticut General Assembly, May 3, 1917.

The assets of ACCF are overseen by the Treasurer (as principal fiduciary of the CRPTF) and are invested in accordance with applicable statutory requirements and fiduciary standards. (See Sections 3-13c and 3-13d of the Connecticut General Statutes.)

B. Statement of Purpose

The Treasurer was authorized by an act of the Connecticut General Assembly in 1917 to enter into an agreement with the executors of the will of Andrew C. Clark of New Milford, wherein certain proceeds of his estate would be shared equally by the State and the Congregational Home Missionary Society of New York. In his will, Andrew C. Clark bequeathed that one half of his entire estate be held and invested for the same objects and purposes for which the School Fund was established (as described in Article XIII of this Part.)

C. Investment Objectives

The primary investment objective of the ACCF is to provide a secure source of income from a principal amount that would last in perpetuity. The ACCF’s financial objectives are long term in nature and have been established based on a comprehensive review of the capital markets and its underlying current and projected requirements.

The Treasurer adheres to the principles of capital market theory, which maintains that over the long-term, prudent investment risk-taking is rewarded with incremental returns. Consequently, while capital preservation is regarded to be of paramount importance, the Treasurer regards prudent risk-taking as justifiable.

The investment objectives for ACCF are as follows:

1. To provide a satisfactory current stream of income given current dollars invested;
2. To maintain the trust corpus by minimizing erosion of principal due to inflation;
3. To maximize returns within reasonable and prudent levels of risk; and



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4. To maintain adequate cash levels to meet trust distribution requirements.

While there cannot be complete assurance that these objectives will be achieved, it is believed that the probability of their realization is reasonably high based upon this IPS and expected performance of the asset classes discussed in Article IV of Part I of this IPS.

D. Asset Allocation

The ACCF's asset allocation shall be established by the Treasurer and the IAC based on (1) capital market theory, (2) the ACCF's financial requirements and (3) the ACCF's liquidity needs. As noted in the introduction of Part II, Appendix Approval Process, the asset allocation will be updated from time to time and posted on the Treasurer's website.



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Article X. Arts Endowment Fund

A. Investment Authority

The Connecticut Arts Endowment Fund (“ARTS”) is established in Section 10-373o of the Connecticut General Statutes.

The assets of ARTS are overseen by the Treasurer (as principal fiduciary of the CRPTF) and are invested in accordance with applicable statutory requirements and fiduciary standards. (See Sections 3-13c and 3-13d of the Connecticut General Statutes.)

B. Statement of Purpose

The ARTS was established under the provisions of Public Act 88-355 with the purpose of providing interest income from a principal amount that would last in perpetuity. A distribution is made to the State Commission on the Arts annually to provide funds for participation in, promotion, development, acceptance and appreciation of artistic and cultural activities.

C. Investment Objectives

The primary investment objective of the ARTS is to provide a secure source of income. The ARTS’s financial objectives are long term in nature and have been established based on a comprehensive review of the capital markets and its underlying current and projected financial requirements.

The Treasurer adheres to the principles of capital market theory, which maintains that over the long term, prudent investment risk-taking is rewarded with incremental returns. Consequently, while capital preservation is regarded to be of paramount importance, the Treasurer regards prudent risk-taking as justifiable.

The investment objectives for ARTS are as follows:

1. To provide a current stream of income to maximize income distributions given current dollars invested;
2. To maintain the trust corpus by minimizing erosion of principal due to inflation;
3. To maximize returns within reasonable and prudent levels of risk; and
4. To maintain adequate cash levels to meet trust distribution requirements.

While there cannot be complete assurance that these objectives will be achieved, it is believed that the probability of their realization is reasonably high based upon



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this IPS and expected performance of the asset classes discussed in Article IV of Part I of this IPS.

D. Asset Allocation

The ARTS's asset allocation shall be established by the Treasurer and the IAC based on (1) capital market theory, (2) the ARTS's financial requirements and (3) the ARTS's liquidity needs. As noted in the introduction of Part II, Appendix Approval Process, the asset allocation will be updated from time to time and posted on the Treasurer's website.



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Article XI. Hopemead State Park Fund

A. Investment Authority

The Hopemead State Park Fund (“HOPE”) is established in Section 3-40 of the Connecticut General Statutes.

The assets of the HOPE are overseen by the Treasurer (as principal fiduciary of the CRPTF) and are invested in accordance with applicable statutory requirements and fiduciary standards. (See Sections 3-13c and 3-13d of the Connecticut General Statutes.)

B. Statement of Purpose

The HOPE was created pursuant to the August 14, 1964 Last Will and Testament of Charlotte Fuller Eastman of Norwich, Connecticut. Upon the death of H. Louise Fuller in 1975, Mrs. Eastman’s last surviving heir, the bequeathed Hopemead Fund (\$143,288.18) was paid to the Department of Environmental Protection, as the successor of the Connecticut State Park and Forest Commission. As mandated, these assets were to be used solely for the development and maintenance of the Hopemead State Park. On March 22, 1976, by mutual agreement of the parties these assets were transferred to the Office of the State Treasurer in order to invest the principal.

C. Investment Objectives

The primary investment objective of the HOPE is to provide a secure source of income. The HOPE’s financial objectives are long term in nature and have been established based on a comprehensive review of the capital markets and its underlying current and projected financial requirements.

The Treasurer adheres to the principles of capital market theory, which maintains that over the long term, prudent investment risk-taking is rewarded with incremental returns. Consequently, while capital preservation is regarded to be of paramount importance, the Treasurer regards prudent risk-taking as justifiable.

The investment objectives for HOPE are as follows:

1. To provide a satisfactory current stream of income given current dollars invested;
2. To maintain the trust corpus by minimizing erosion of principal due to inflation;



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3. To maximize returns within reasonable and prudent levels of risk; and
4. To maintain adequate cash levels to meet trust distribution requirements.

While there cannot be complete assurance that these objectives will be achieved, it is believed that the probability of their realization is reasonably high based upon this IPS and expected performance of the asset classes discussed in Article IV of Part I of this IPS.

D. Asset Allocation

The HOPE's asset allocation shall be established by the Treasurer and the IAC based on (1) capital market theory, (2) the HOPE's financial requirements and (3) the HOPE's liquidity needs. As noted in the introduction of Part II, Appendix Approval Process, the asset allocation will be updated from time to time and posted on the Treasurer's website.



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Article XII. Ida Eaton Cotton Fund

A. Description

The Ida Eaton Cotton Fund (“IECF”) is established under the provisions of Section 4-31a of the Connecticut General Statutes.

The assets of the IECF are overseen by the Treasurer (as principal fiduciary of the CRPTF) and are invested in accordance with applicable statutory requirements and fiduciary standards. (See Sections 3-13c and 3-13d of the Connecticut General Statutes.)

B. Statement of Purpose

The New Haven County Cotton Fund as originally established in 1963, mandated that interest income from the principal of the IECF bequest be used to sponsor and encourage industry among the adult blind community. Thus, on behalf of IECF, a distribution is transferred annually to the General Fund for use by the Board of Education Services for the Blind.

C. Investment Objectives

The primary investment objective of the IECF is to provide a secure source of income. The IECF’s financial objectives are long term in nature and have been established based on a comprehensive review of the capital markets and its underlying current and projected financial requirements.

The Treasurer adheres to the principles of capital market theory, which maintains that over the long term, prudent investment risk-taking is rewarded with incremental returns. Consequently, while capital preservation is regarded to be of paramount importance, the Treasurer regards prudent risk-taking as justifiable.

The investment objectives for IECF are as follows:

1. To provide a satisfactory current stream of income given current dollars invested;
2. To maintain the trust corpus by minimizing erosion of principal due to inflation;
3. To maximize returns within reasonable and prudent levels of risk; and
4. To maintain adequate cash levels to meet trust distribution requirements.

While there cannot be complete assurance that these objectives will be achieved, it is believed that the probability of their realization is reasonably high based upon



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this IPS and expected performance of the asset classes discussed in Article IV of Part I of this IPS.

D. Asset Allocation

The IECF's asset allocation shall be established by the Treasurer and the IAC based on (1) capital market theory, (2) the IECF's financial requirements and (3) the IECF's liquidity needs. As noted in the introduction of Part II, Appendix Approval Process, the asset allocation will be updated from time to time and posted on the Treasurer's website.



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Article XIII. School Fund

A. Investment Authority

The School Fund (“SCOL”) is established under the provisions of Section 3-40 of the Connecticut General Statutes.

The assets of the SCOL are overseen by the Treasurer (as principal fiduciary of the CRPTF) and are invested in accordance with applicable statutory requirements and fiduciary standards. (See Sections 3-13c and 3-13d of the Connecticut General Statutes.)

B. Statement of Purpose

The SCOL was established through an Act of Congress on July 2, 1862 (as was the Agricultural College Fund) from the proceeds of the sale of federal land, and was approved by a Special Session of the Connecticut General Assembly in December 1862. The SCOL was originally under the jurisdiction of the Agricultural College of the University of Connecticut, but is now within the Department of Education. A distribution is transferred to the Department of Education for general use through the Office of Policy and Management’s budget allocation process.

C. Investment Objectives

The primary investment objective of the SCOL is to provide a secure source of income. The SCOL’s financial objectives are long term in nature and have been established based on a comprehensive review of the capital markets and its underlying current and projected financial requirements.

The Treasurer adheres to the principles of capital market theory, which maintains that over the long term, prudent investment risk-taking is rewarded with incremental returns. Consequently, while capital preservation is regarded to be of paramount importance, the Treasurer regards prudent risk-taking as justifiable.

The investment objectives for SCOL are as follows:

1. To provide a satisfactory current stream of income given current dollars invested;
2. To maintain the trust corpus by minimizing erosion of principal due to inflation;
3. To maximize returns within reasonable and prudent levels of risk; and
4. To maintain adequate cash levels to meet trust distribution requirements.



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While there cannot be complete assurance that these objectives will be achieved, it is believed that the probability of their realization is reasonably high based upon this IPS and expected performance of the asset classes discussed in Article IV of Part I of this IPS.

D. Asset Allocation

The SCOL's asset allocation shall be established by the Treasurer and the IAC based on (1) capital market theory, (2) the SCOL's financial requirements and (3) the SCOL's liquidity needs. As noted in the introduction of Part II, Appendix Approval Process, the asset allocation will be updated from time to time and posted on the Treasurer's website.



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Article XIV. Soldiers’ Sailors’ and Marines’ Fund

A. Description

The Soldiers’ Sailors’ and Marines’ Fund (“SSMF”) is established under the provisions of Section 27-140 of the Connecticut General Statutes.

The assets of the SSMF are overseen by the Treasurer (as principal fiduciary of the CRPTF) and are invested in accordance with applicable statutory requirements and fiduciary standards. (See Sections 3-13c and 3-13d of the Connecticut General Statutes.)

B. Statement of Purpose

The SSMF was established by an Act of the General Assembly in 1917 and, through numerous revisions, remains obligated to serve the interest of military personnel who were engaged in any of the wars waged by the United States, as specified by statute, who were honorably discharged, or to their spouses, survivors and dependents. The distribution is controlled and accounted for by the American Legion for the purposes of providing food, shelter, clothing and other subsistence payments to applicants under the provisions of Sections 27-138 and 27-140 of the Connecticut General Statutes.

C. Investment Objectives

The primary investment objective of the SSMF is to provide a secure source of income. The SSMF’s financial objectives are long term in nature and have been established based on a comprehensive review of the capital markets and its underlying current and projected financial requirements.

The Treasurer adheres to the principles of capital market theory, which maintains that over the long term, prudent investment risk-taking is rewarded with incremental returns. Consequently, while capital preservation is regarded to be of paramount importance, the Treasurer regards prudent risk-taking as justifiable.

The investment objectives for SSMF are as follows:

1. To provide a satisfactory current stream of income t distributions given current dollars invested;
2. To preserve the trust corpus relative to the effects of inflation;
3. To maximize returns within reasonable and prudent levels of risk; and
4. To maintain adequate cash levels to meet trust distribution requirements.



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While there cannot be complete assurance that these objectives will be achieved, it is believed that the probability of their realization is reasonably high based upon this IPS and expected performance of the asset classes discussed in Article IV of Part I of this IPS.

D. Asset Allocation

The SSMF's asset allocation shall be established by the Treasurer and the IAC based on (1) capital market theory, (2) the SSMF's financial requirements and (3) the SSMF's liquidity needs. As noted in the introduction of Part II, Appendix Approval Process, the asset allocation will be updated from time to time and posted on the Treasurer's website.



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Article I. Introduction

A. The Combined Investment Funds (the “Fund(s)”) are separate legally defined funds that have been created by the Treasurer of the State of Connecticut under the authority set forth in Section 3-31b of the Connecticut General Statutes. The Funds were established to provide a means for investing pension plans and other trust fund assets entrusted to the Treasurer in a variety of investment classes. The Funds are open-end portfolios consisting of the

1. Mutual Equity Fund,
2. Developed Markets International Stock Fund,
3. Emerging Markets International Stock Fund,
4. Core Fixed Income Fund,
5. Inflation Linked Bond Fund,
6. High Yield Bond Fund,
7. Emerging Market Debt Fund,
8. Real Estate Fund,
9. Commercial Mortgage Fund (Fund is being liquidated),
10. Private Equity Fund,
11. Alternative Investment Fund, and
12. Liquidity Fund.

B. The units of the Funds are owned by the pension plans and trust funds noted in Part II of this IPS, which include the

1. State Employees’ Retirement Fund,
2. Teachers’ Retirement Fund,
3. Connecticut Municipal Employees’ Retirement Funds,
4. Probate Judges and Employees Retirement Fund,
5. State Judge’s Retirement Fund,
6. State’s Attorneys Retirement Fund,
7. Soldiers’, Sailors’ and Marines’ Fund,
8. Arts Endowment Fund,
9. Agricultural College Fund,
10. Ida Eaton Cotton Fund,
11. Andrew C. Clark Fund,
12. School Fund,
13. Hopemead Fund, and
14. Police and Firemen Survivors’ Benefit Fund.



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C. Diversification

It is the Treasurer's policy, as reflected in this IPS, that the invested assets are to be broadly diversified so as to limit the impact of large losses in individual investments over the total portfolio. Index funds may be used as a cost-effective way to gain market exposure in asset classes where there is less promise to add value through active management. In less efficient market segments, active management will be utilized in order to enhance risk-adjusted performance relative to asset class benchmarks.

D. Guidelines for Money Managers

1. Professional money managers will be selected and monitored based on (1) conformity of investment style with each of the CRPTF's return objectives, (2) demonstrated ability to achieve above average results consistently and (3) continuity of senior personnel.
2. Money managers will be given full discretion to manage their portion of the CRPTF through written guidelines as approved by the Treasurer. The guidelines will be consistent with the objectives and policies of the IPS and subject to the contractual arrangements governing the relationship between the CRPTF and its money managers.
3. The money managers' discretion regarding the selection of investments shall be limited by the Treasurer's exercise of her duty to consider the consequences of such discretion in accordance with state laws and as may be addressed in the IPS.
4. It is the current practice that the CRPTF assets are externally managed. However, nothing in this policy statement or under applicable law prohibits the ability of the Treasurer, in consultation with the IAC, from establishing criteria, standards and guidelines for managing a portion of the overall CRPTF portfolio within the office of the Treasurer.
5. The specific guidelines unique to each money manager will be developed cooperatively by the Treasurer and such money manager and shall be incorporated into the Investment Managers Agreement (IMA) executed by the Treasurer and such money manager. Sector, investment selection, permissible investments and decisions regarding the timing of purchases and sales of these investments are to be delegated to the money manager, subject to restrictions established by the Treasurer. In the case of a conflict between a money manager's specific guidelines and the Fund's general guidelines, the money manager's specific guidelines shall prevail.



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E. Communications, Reporting, & Notification

1. Any change in investment strategy that materially deviates from the investment management guidelines by a money manager will be communicated to the Treasurer.
2. Any significant change in ownership or key personnel at a money manager will be communicated preferably in advance of such change and a formal notice of said change will be issued to the Treasurer within 24 hours of the official change.
3. Performance results, portfolio listings and valuations must be provided on a quarterly basis.
4. Portfolio accounting will be reconciled to the master custodian on a monthly basis, in a manner prescribed by the Treasurer.

F. Combined Investment Fund (CIF) Asset Allocation Appendix

The asset allocation for the Combined Investment Funds shall be approved by the public members of the IAC, and shall be made an appendix to this IPS and posted on the Website of the Office of the State Treasurer.

With regard to subsequent changes to any asset allocation plan, the following process shall be followed:

1. The proposed plan changes and recommendation will be presented by the Treasurer at a regularly scheduled IAC meeting.
2. Consideration for approval shall be taken up at the next following regularly scheduled IAC meeting.
3. The Treasurer's recommendation shall be deemed approved if it receives a majority of the public IAC members' vote to approve.
4. The approved changes shall be posted on the Treasurer's website, and a revised appendix shall be made part of this IPS.

G. Proxy Voting

Proxy voting activities will be reported quarterly to the IAC and are posted on the Office of the State Treasurer web site.



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Article II. Mutual Equity Fund

A. Statement of Purpose

The Mutual Equity Fund (“MEF”) shall invest primarily in the common stocks of U.S. corporations in order to meet the CRPTF asset allocation guidelines for Domestic Equities. In the overall asset allocation, MEF’s goal is to achieve a long-term, real rate of return significantly above the inflation rate. While common stocks are volatile on a year-to-year basis, that volatility is diminished over longer periods.

B. Description of the Fund

MEF shall invest primarily in the common stocks of U.S. corporations. These investments shall be made using money managers. MEF assets shall be allocated across the U.S. stock market so that there is diversification by both market capitalization and investment style, such as value and growth. The MEF may, at the Treasurer’s discretion and with the IAC’s endorsement, invest opportunistically to take advantage of shifts in the investment landscape or opportunities that offer diversification and/or risk return benefits. This opportunistic allocation will be made within the broad context of the MEF. Therefore, investments include U.S. common stocks, except as allowed by the investment management agreement and guidelines and may include investments in any market capitalization and /or investment style and may include an allocation to stocks outside of the U.S.. The allocation to opportunistic investments is not to exceed 30% of the MEF and subject to MEF guidelines on opportunistic investments.

C. Performance Benchmark & Objectives

The Performance Benchmark for MEF is the Russell 3000 Index with gross dividends reinvested or an equivalent benchmark as approved by the Treasurer and endorsed by the IAC. The Performance Objective of MEF is to achieve a net return that, at a minimum, matches the benchmark, over rolling three-to five-year periods. The ability of a money manager to outperform a benchmark will be contingent upon the amount of risk allowed in the IMA and the current market conditions of the asset class. Therefore, the objective above the benchmark will be based on the amount of excess return in the marketplace given the level of risk. This policy outlines the level of risk. Appendix “A”, Section II of this document, outlines the objective, and will be modified by the Treasurer as market conditions change, and endorsed by the IAC. This objective requires the use of both enhanced and active investment strategies. Furthermore, MEF is expected to:

1. Provide diversification benefits to the CRPTF performance.
2. Achieve cumulative performance results that rank in the top third of domestic equity managers over rolling three-year periods.



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3. Generate strong risk-adjusted returns, as measured by the information ratio (excess return divided by tracking error). Generate an information ratio over rolling five-year periods of 0.30 or better.
4. Maintain a tracking error of no greater than 200 - 400 basis points per annum over rolling three-year periods.

D. Investment Guidelines

In general, the following MEF investment restrictions/limitations apply to all MEF money managers unless otherwise authorized in the money manager's specific Investment Management Agreement (IMA) with the Treasurer. Therefore, money managers:

1. shall purchase only equities that are readily marketable.
2. shall not make any short sales, unless specifically authorized in the IMA as part of an opportunistic investment strategy.
3. shall not make use of leverage or margin purchasing.
4. shall not purchase futures or options.
5. may purchase foreign securities if they are securities of firms with substantial U.S. operations and the securities are actively traded in the U.S. securities markets in the form of American Depositary Receipts ("ADRs"), or the securities are components of one or more U.S. stock indexes. However, the market value of securities in foreign companies shall not exceed 15% of the market value of their portfolio.
6. shall not purchase convertible bonds.
7. shall remain fully invested (defined as having at least 95% of net market value in equities) at all times.
8. portfolio cash balances shall be invested by the custodian in the Liquidity Fund.
9. shall adhere to the specific investment and administrative guidelines established for their portfolios in their IMA. The management style of the portfolio shall not be changed without the written consent of the Treasurer.
10. shall be required to ensure that all MEF investments adhere to all limitations imposed by Connecticut and/or federal law.



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Article III. Developed Markets International Stock Fund

A. Statement of Purpose

The Developed Markets International Stock Fund (“DMISF”) shall invest primarily in the common stocks of non-U.S. corporations in order to meet the CRPTF asset allocation guidelines for International Equities. In the overall asset allocation, DMISF’s goal is to achieve a long-term, real rate of return above the US inflation rate. While common stocks are volatile on a year-to-year basis, that volatility is diminished over longer periods. The inclusion of DMISF investments will generate new sources of risks associated with international investing and at the same time, provides additional measures of diversification to other asset classes within the CRPTF.

B. Description of the Fund

DMISF shall invest primarily in the common stocks of non-U.S. corporations. These investments shall be made using money managers. DMISF assets shall be allocated across foreign markets such that there is diversification by market, capitalization and style which, in aggregate, are structured to replicate the characteristics of the comparable developed non-U.S. equity markets index. Non-U.S. equities are defined as common stocks issued by companies domiciled outside the U.S. Developed Markets are defined as the countries included in the S&P/Citigroup Broad Market Index (BMI) EPAC (Europe, Pacific Asia Composite).

The DMISF may, at the Treasurer’s discretion and with the IAC’s endorsement, invest opportunistically to take advantage of shifts in the investment landscape or opportunities that offer diversification and/or risk return benefits. This opportunistic allocation will be made within the broad context of the DMISF. Therefore, investments in the non-U.S. equity markets, except as allowed by the investment management agreement and guidelines, may include investments in any market capitalization and /or investment style and an allocation to stocks inside of the U.S. The allocation to opportunistic investments is not to exceed 30% of the DMISF and subject to DMISF guidelines on opportunistic investments.

C. Performance Benchmark & Objectives

The Performance Benchmark for DMISF is the S&P/Citigroup Broad Market Index (BMI) EPAC (Europe, Pacific Asia Composite) 50% hedged with net dividends reinvested or equivalent benchmark as approved by the Treasurer and endorsed by the IAC. The Performance Objective of DMISF is to achieve a net return that, at a



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minimum, matches the benchmark, over rolling three-to five-year periods. The ability of a money manager to outperform a benchmark will be contingent upon the amount of risk allowed in the IMA and the current market conditions of the asset class. Therefore, the objective above the benchmark will be based on the amount of excess return in the marketplace given the level of risk. This policy outlines the level of risk. Appendix “A”, Section II of this document, outlines the objective, and will be modified by the Treasurer as market conditions change, and endorsed by the IAC. This objective requires the use of both enhanced and active investment strategies. Furthermore, DMISF is expected to:

1. Provide diversification benefits to the CRPTF performance.
2. Achieve cumulative performance results that rank in the top third of international equity managers over rolling three-year periods.
3. Generate strong risk-adjusted returns, as measured by the information ratio (excess return divided by tracking error). Generate an information ratio over rolling five-year periods of 0.50 or better.
4. Maintain a tracking error of no greater than 200 - 500 basis points per annum over rolling three-year periods.

D. Investment Guidelines

In general, the following DMISF investment restrictions/limitations apply to all DMISF money managers unless otherwise authorized in the money manager's specific Investment Management Agreement (IMA) with the Treasurer. Therefore, money managers:

1. shall purchase only equities that are readily marketable.
2. shall not make any short sales, unless specifically authorized in the IMA as part of an opportunistic investment strategy.
3. shall not make use of leverage or margin purchasing.
4. shall not purchase futures or options.
5. may purchase American Depositary Receipts (“ADRs”) however; the market value of such American shares shall not exceed 15% of the market value of their portfolio.
6. shall not purchase convertible bonds.
7. shall remain fully invested (defined as having at least 95% of net market value in equities) at all times.
8. portfolio cash balances shall be invested by the custodian in the Liquidity Fund.
9. shall adhere to the specific investment and administrative guidelines established for their portfolios in their IMA. The management style of the portfolio shall not be changed without the written consent of the Treasurer.
10. shall be required to ensure that all DMISF investments adhere to all limitations imposed by Connecticut and/or federal law.



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Article IV. Emerging Markets International Stock Fund

A. Statement of Purpose

The Emerging Markets International Stock Fund (“EMISF”) shall invest primarily in the common stocks of non-U.S. corporations in order to meet the CRPTF asset allocation guidelines for Emerging Markets Equities. In the overall asset allocation, EMISF’s goal is to achieve a long-term, real rate of return above the US inflation rate. While common stocks are volatile on a year-to-year basis, that volatility is diminished over longer periods. The inclusion of EMISF investments will generate new sources of risks associated with international investing and at the same time, provides additional measures of diversification to other asset classes within the CRPTF.

B. Description of the Fund

EMISF shall invest primarily in the common stocks of non-U.S. corporations. These investments shall be made using money managers. EMISF assets shall be allocated across foreign markets such that there is diversification by market, capitalization and style which, in aggregate, are structured to replicate the characteristics of the comparable emerging markets equity index. Non-U.S. equities are defined as common stocks issued by companies domiciled outside the U.S. Emerging Markets are defined as the countries included in the Morgan Stanley Capital International (MSCI) Emerging Markets Free Index (“EMF Index”).

C. Performance Benchmark & Objectives

The Performance Benchmark for EMISF is the MSCI Emerging Markets Free Index (EMF) with net dividends reinvested. The Performance Objective of EMISF is to achieve a net return that, at a minimum, matches the benchmark, over rolling three-to five-year periods. The ability of a money manager to outperform a benchmark will be contingent upon the amount of risk allowed in the IMA and the current market conditions of the asset class. Therefore, the objective above the benchmark will be based on the amount of excess return in the marketplace given the level of risk. This policy outlines the level of risk. Appendix “A”, Section II of this document, outlines the objective, and will be modified by the Treasurer as market conditions change, and endorsed by the IAC. . This objective requires the use of both enhanced and active investment strategies. Furthermore, EMISF is expected to:

1. Provide diversification benefits to the CRPTF performance.
2. Achieve cumulative performance results that rank in the top third of emerging markets equity managers over rolling three-year periods.



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3. Generate strong risk-adjusted returns, as measured by the information ratio (excess return divided by tracking error). Generate an information ratio over rolling five-year periods of 0.50 or better.
4. Maintain a tracking error of no greater than 200 - 400 basis points per annum over rolling three-year periods.

D. Investment Guidelines

In general, the following EMISF investment restrictions/limitations apply to all EMISF money managers unless otherwise authorized in the money manager's specific Investment Management Agreement (IMA) with the Treasurer. Therefore, money managers:

1. shall purchase only equities that are readily marketable.
2. shall not make any short sales.
3. shall not make use of leverage or margin purchasing.
4. shall not purchase futures or options.
5. may purchase American Depositary Receipts ("ADRs") however; the market value of such American shares shall not exceed 15% of the market value of their portfolio.
6. shall not purchase convertible bonds.
7. shall remain fully invested (defined as having at least 95% of net market value in equities) at all times.
8. portfolio cash balances shall be invested by the custodian in the Liquidity Fund.
9. shall adhere to the specific investment and administrative guidelines established for their portfolios in their IMA. The management style of the portfolio shall not be changed without the written consent of the Treasurer.
10. shall be required to ensure that all EMISF investments adhere to all limitations imposed by Connecticut and/or federal law.



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Article V. Core Fixed Income Fund

A. Statement of Purpose

The Core Fixed Income Fund (“CFIF”) shall invest primarily in fixed-income securities in the domestic U.S. markets in order to meet the CRPTF asset allocation guidelines for Core Fixed Income. In the overall asset allocation, CFIF’s goal is to achieve a long-term, real rate of return above the inflation rate and provide a stream of income to meet cash flow needs of the plans and trusts. While fixed income securities may exhibit volatility on a year-to-year basis, that volatility is diminished over longer periods. The inclusion of a core fixed income class will provide a source of diversification to other asset classes within the CRPTF during different economic environments.

B. Description of the Fund

The Core Fixed Income Fund (“CFFI”) consists of managed fixed income portfolio(s) which, are debt instruments issued by the U.S. Government and its agencies, “quasi Government” agencies, U.S. corporations, Euro bonds, high quality quasi or sovereign debt and any other public or private U.S. regulated debt security.

C. Performance Objectives

The Performance Benchmark for CFIF is the Lehman Brothers US Aggregate Index. The Performance Objective of CFIF is to achieve a net return that, at a minimum, matches the benchmark, over rolling three-to five-year periods. The ability of a money manager to outperform a benchmark will be contingent upon the amount of risk allowed in the IMA and the current market conditions of the asset class. Therefore, the objective above the benchmark will be based on the amount of excess return in the marketplace given the level of risk. This policy outlines the level of risk. Appendix “A”, Section II of this document, outlines the objective, and will be modified by the Treasurer as market conditions change, and endorsed by the IAC. This objective requires the use of a range of strategies from passive through active investment strategies. Furthermore, CFIF is expected to:

1. Provide diversification benefits to the CRPTF performance.
2. Achieve cumulative performance results that rank in the top third of core fixed income managers over rolling three- and five-year periods.
3. Generate strong risk-adjusted returns, as measured by the information ratio (excess return divided by tracking error). Generate an information ratio over rolling three- to five-year periods of 0.50 or better.
4. Maintain a tracking error of no greater than 75 - 250 basis points per annum over rolling three- to five-year periods.



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D. Investment Guidelines

In general, the following CFIF investment restrictions/limitations apply to all CFIF money managers unless otherwise authorized in the money manager's specific Investment Management Agreement (IMA) with the Treasurer. Therefore, money managers:

1. shall purchase only securities that are readily marketable.
2. shall not make any short sales.
3. shall not make use of leverage or margin purchasing.
4. shall not purchase futures or options.
5. shall not purchase convertible bonds.
6. shall remain fully invested (defined as having at least 95% of net market value in fixed income) at all times.
7. portfolio cash balances shall be invested by the custodian in the Liquidity Fund.
8. shall adhere to the specific investment, security and benchmark diversification limits and administrative guidelines established for their portfolios in their IMA. The management style of the portfolio shall not be changed without the written consent of the Treasurer.
9. shall be required to ensure that all CFIF investments adhere to all limitations imposed by Connecticut and/or federal law.



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Article VI. Inflation Linked Bond Fund

A. Statement of Purpose

The Inflation Linked Bond Fund (“ILBF”) shall invest primarily in inflation-linked securities in the domestic U.S. markets in order to meet the CRPTF asset allocation guidelines for Inflation-Linked bonds. In the overall asset allocation, ILBF’s goal is to achieve a long-term, real rate of return above the inflation rate. The inclusion of an inflation-linked fixed income class will provide protection against rampant inflation and is a source of diversification to other asset classes within the CRPTF during different economic environments.

B. Description of Fund

The ILBF consists of managed fixed income portfolio(s) which, draws from the global universe of inflation linked bonds, and include bonds that provide a real return above inflation and add to the diversification of the CRPTF total portfolio. Inflation Linked Bonds pay semi-annual coupons that account for the real return while the inflation component of the return accrues to the bonds’ principal every year.

C. Performance Objectives

The Performance Benchmark for ILBF is the Lehman Brothers US TIPS Index or equivalent index as approved by the Treasurer. The Performance Objective of ILBF is to achieve a net return that, at a minimum, matches the benchmark, over rolling three-to five-year periods. The ability of a money manager to outperform a benchmark will be contingent upon the amount of risk allowed in the IMA and the current market conditions of the asset class. Therefore, the objective above the benchmark will be based on the amount of excess return in the marketplace given the level of risk. This policy outlines the level of risk. Appendix “A”, Section II of this document, outlines the objective, and will be modified by the Treasurer as market conditions change, and endorsed by the IAC. This objective requires the use of both enhanced and active investment strategies. Furthermore, ILBF is expected to:

1. Provide diversification benefits to the CRPTF performance.
2. Achieve cumulative performance results that rank in the top third of inflation-linked bond managers over rolling three to five-year periods.
3. Generate strong risk-adjusted returns, as measured by the information ratio (excess return divided by tracking error). Generate an information ratio over rolling three- to five-year periods of 0.50 or better.
4. Maintain a tracking error of no greater than 150 - 250 basis points per annum over rolling three- to five-year periods.



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D. Investment Guidelines

In general, the following ILBF investment restrictions/limitations apply to all ILBF money managers unless otherwise authorized in the money manager's specific Investment Management Agreement (IMA) with the Treasurer. Therefore, money managers:

1. shall purchase only securities that are readily marketable.
2. shall not make any short sales.
3. shall not make use of leverage or margin purchasing.
4. managers shall not purchase futures or options.
5. shall not purchase convertible bonds.
6. shall remain fully invested (defined as having at least 95% of net market value in equities) at all times.
7. portfolio cash balances shall be invested by the custodian in the Liquidity Fund.
8. shall adhere to the specific investment, security and benchmark diversification limits and administrative guidelines established for their portfolios in their IMA. The management style of the portfolio shall not be changed without the written consent of the Treasurer.
9. managers shall be required to ensure that all ILBF investments adhere to all limitations imposed by Connecticut and/or federal law.



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Article VII. Emerging Market Debt Fund

A. Statement of Purpose

The Emerging Market Debt Fund (“EMDF”) shall invest primarily in emerging market debt securities in foreign emerging markets in order to meet the CRPTF asset allocation guidelines for Emerging Market bonds. In the overall asset allocation, EMDF’s goal is to achieve a long-term, real rate of return above the inflation rate and utilize a range of manager style techniques to capture excess return. While fixed income securities may exhibit volatility on a year-to-year basis, that volatility is diminished over longer periods. The inclusion of an emerging market fixed income class will generate new sources of risk associated with international investing, and at the same time provide a source of diversification to other asset classes within the CRPTF given the different economic environments of global economies.

B. Description of the Fund

The Emerging Market Debt Fund (“EMDF”) consists of managed fixed income portfolio(s) which, in aggregate, are debt instruments issued by government and companies operating in developing countries as defined by the benchmark and/or by The World Bank.

C. Performance Benchmark and Objectives

The Performance Benchmark for EMDF is the J.P. Morgan Emerging Markets Bonds Global Index or an equivalent index as approved by the Treasurer and endorsed by the IAC. The Performance Objective of EMDF is to achieve a net return that, at a minimum, matches the benchmark, over rolling three-to five-year periods. The ability of a money manager to outperform a benchmark will be contingent upon the amount of risk allowed in the IMA and the current market conditions of the asset class. Therefore, the objective above the benchmark will be based on the amount of excess return in the marketplace given the level of risk. This policy outlines the level of risk. Appendix “A”, Section II of this document, outlines the objective, and will be modified by the Treasurer as market conditions change, and endorsed by the IAC. This objective requires the use of both enhanced and active investment strategies. Furthermore, EMDF is expected to:

1. Provide diversification benefits to the CRPTF performance.
2. Achieve cumulative performance results that rank in the top third of emerging market debt managers over rolling three-year periods.
3. Generate strong risk-adjusted returns, as measured by the information ratio (excess return divided by tracking error). Generate an information ratio over rolling three- to five-year periods of 0.3 or better.



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4. Maintain a tracking error of no greater than 300 - 500 basis points per annum over rolling three- to five-year periods.
5. Provide diversification benefits to the CRPTF performance in different economic environments.

D. Investment Guidelines

In general, the following EMDF investment restrictions/limitations apply to all EMDF money managers unless otherwise authorized in the money manager's specific Investment Management Agreement (IMA) with the Treasurer. Therefore, money managers:

1. shall purchase only securities that are readily marketable.
2. shall not make any short sales.
3. shall not make use of leverage or margin purchasing.
4. shall not purchase futures or options.
5. shall not purchase convertible bonds.
6. shall remain fully invested (defined as having at least 95% of net market value in equities) at all times.
7. portfolio cash balances shall be invested by the custodian in the Liquidity Fund.
8. shall adhere to the specific investment, security and benchmark diversification limits and administrative guidelines established for their portfolios in their IMA. The management style of the portfolio shall not be changed without the written consent of the Treasurer.
9. shall be required to ensure that all EMDF investments adhere to all limitations imposed by Connecticut and/or federal law.



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Article VIII. High Yield Investment Fund

A. Statement of Purpose

The High Yield Debt Fund (“HYDF”) shall invest primarily in domestic below investment grade debt securities in order to meet the CRPTF asset allocation guidelines for High Yield bonds. In the overall asset allocation, HYDF’s goal is to achieve a long-term, real rate of return above the inflation rate and utilize a range of manager style techniques to capture excess return. The inclusion of a high yield fixed income class will provide a source of diversification to other asset classes within the CRPTF given the different economic environments.

B. Description of the Fund

The High Yield Debt Fund (“HYDF”) consists of managed fixed income portfolio(s) which, in aggregate, are debt instruments rated below investment grade by a nationally recognized rating agency service (example: Standard & Poors, Moody’s or Fitch).

C. Performance Benchmark and Objectives

The Performance Benchmark for HYDF is the Merrill Lynch High Yield Index or equivalent index as approved by the Treasurer and endorsed by the IAC. The Performance Objective of HYDF is to achieve a net return that, at a minimum, matches the benchmark, over rolling three-to five-year periods. The ability of a money manager to outperform a benchmark will be contingent upon the amount of risk allowed in the IMA and the current market conditions of the asset class. Therefore, the objective above the benchmark will be based on the amount of excess return in the marketplace given the level of risk. This policy outlines the level of risk. Appendix “A”, Section II of this document, outlines the objective, and will be modified by the Treasurer as market conditions change, and endorsed by the IAC. This objective requires the use of both enhanced and active investment strategies. Furthermore, HYDF is expected to:

1. Provide diversification benefits to the CRPTF performance.
2. Achieve cumulative performance results that rank in the top third of high yield debt managers over rolling three- to five-year periods.
3. Generate strong risk-adjusted returns, as measured by the information ratio (excess return divided by tracking error). Generate an information ratio over rolling three- to five-year periods of 0.50 or better.
4. Maintain a tracking error of no greater than 300 - 600 basis points per annum over rolling three- to five-year periods.



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D. Investment Guidelines

In general, the following HYDF investment restrictions/limitations apply to all HYDF money managers unless otherwise authorized in the money manager's specific Investment Management Agreement (IMA) with the Treasurer. Therefore, money managers:

1. shall purchase only securities that are readily marketable.
2. shall not make any short sales.
3. shall not make use of leverage or margin purchasing.
4. shall not purchase futures or options.
5. shall not purchase convertible bonds.
6. shall remain fully invested (defined as having at least 95% of net market value in equities) at all times.
7. portfolio cash balances shall be invested by the custodian in the Liquidity Fund.
8. shall adhere to the specific investment, security and benchmark diversification limits and administrative guidelines established for their portfolios in their IMA. The management style of the portfolio shall not be changed without the written consent of the Treasurer.
9. shall be required to ensure that all HYDF investments adhere to all limitations imposed by Connecticut and/or federal law.



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Article IX. Asset Class Guidelines-Commercial Mortgage Fund

Note: This asset class is not a part of the asset allocation structure of the CRPTF, adopted in August 1999, and the balance in the fund will be allowed to amortize and mature. No new investments will be added to this fund. The following represents the investment guidelines, which were adopted on May 13, 1998.

A. Statement of Purpose:

The Commercial Mortgage Fund (“CMF”) provides an alternate source of domestic fixed income investment for the retirement funds. It is the vehicle for investing CRPTF’s assets in mortgages on income-producing commercial property, which are expected to produce, yields superior to corporate and government (treasury) fixed income securities in exchange for reduced liquidity. These differences aside, commercial mortgages are expected to perform similarly to other domestic fixed income securities, which are driven by U.S. interest rate changes.

B. Description of the Fund:

CMF consists of a series of commercial mortgage portfolios, which are held in securitized trust or similar formats and are managed by external professional real estate investment management firms. Most of the loans in the portfolio will be conservative in nature with respect to loan underwriting standards.

C. Performance Benchmark and Objectives:

Over a market cycle, CMF is expected to generate a net total return of one percent (1%) in excess of the Lehman Brothers Aggregate Bond Index, and to exceed the rate of total return of MFIF.

D. Investment Guidelines:

In order to carry out its mission and to achieve its investment objectives, CMF’s guidelines shall include:

1. At the time of investment, mortgage loans shall provide yields of at least 125 basis points in excess of comparable maturity treasury bonds.
2. Mortgage loans shall have the characteristics of fixed income securities and be responsive to changes in domestic interest rates.
3. Investment managers shall screen and underwrite mortgage loan proposals before submitting them to the fund for approval.
4. In order to ensure adequate diversification within CMF, loans may be made on commercial properties of any type or in any location within the United States. Portfolio securitization and other yield enhancement mechanisms may



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be employed to enhance yield, and loans may be designed to take advantage of market niches in order to increase yields.

5. Any statutory restriction referenced in part one of this document.



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State of Connecticut Retirement Plans & Trust Funds
PART III – COMBINED INVESTMENT FUNDS

Article X. Real Estate Fund

A. Statement of Purpose

The Real Estate Fund's ("REF") strategic objectives are to provide diversification to the overall CRPTF investment program, preserve investment capital and generate attractive risk-adjusted rates of return. The REF will also provide consistent current income and provide capital gains to the CRPTF and act as a hedge against inflation given different economic scenarios.

B. Description of the Fund

The REF is the vehicle by which the CRPTF makes investments in the real estate asset class. The investments may consist of a number of different investment strategies and investment vehicles, including externally managed commingled funds, separate accounts and/or publicly traded real estate securities. All investments in real estate assets are expected to adhere to the standards of fiduciary obligation to the beneficiaries of the CRPTF, and shall be considered in the context of the relevant risk/reward factors of this asset class and consistent with the statutory requirements for consideration of investments by the Treasurer in accordance with Section 3-13d(a) of the Connecticut General Statutes. These investments also will adhere to the Responsible Contractor Policy as approved by the IAC and contained in the Appendix. In the event the preconditions of Section 3-13d(d) of the Connecticut General Statutes are met with respect to a "lame duck" period, the IAC shall assume the principal fiduciary authority of the Treasurer for investment decisions for the Fund until such time as a duly elected Treasurer is officially sworn into office.

C. Performance Benchmark and Objectives

1. Expected returns for CRPTF's real estate investments shall be (i) at minimum, CRPTF's actuarially determined assumed rate of return and (ii) competitive, on a risk-adjusted basis, with other asset classes in which the CRPTF invests. Expected returns for each of the CRPTF's real estate investments shall also be commensurate with the attendant risks associated with each investment.
2. The real estate asset class shall be managed to (i) ensure a consistent flow of qualified investment opportunities that represent the most attractive investment vehicles currently available in the marketplace, (ii) produce a diversified and balanced portfolio of investments that are structured so that the risks inherent in these generally illiquid and long-lived assets may be minimized, and (iii) adhere to the fiduciary standards delineated in Part I of the IPS.



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3. The Performance Objective of REF is to achieve a net return that, at a minimum, matches the benchmark, over rolling three-to five-year periods. The ability of an investment manager to outperform a benchmark will be contingent upon the amount of risk allowed in the IMA and the current market conditions of the asset class. Therefore, the objective above the benchmark will be based on the amount of excess return in the marketplace given the level of risk. This policy outlines the level of risk. Appendix “A”, Section II of this document, outlines the objective, and will be modified by the Treasurer as market conditions change, and endorsed by the IAC

D. Investment Guidelines

Partnership selection shall entail a comprehensive, thorough process of due diligence and investigation of the critical factors on which an investment decision is to be based, including quantitative and qualitative analysis of the general partner, its professionals and their ability to successfully implement their stated investment strategy within the context of current and prospective market environments. The partnership's relative investment worthiness will be assessed within this context. To the extent necessary and feasible, a site visit will be conducted as part of this process.

In general, the following REF investment restrictions/limitations apply to all REF investment managers unless otherwise authorized in the investment manager's specific General Contract Agreement (GCA) with the Treasurer:

1. The General Partners will follow the contract process for the State of Connecticut Retirement Plans & Trust Funds Responsible Contractor Policy – Real Estate Fund.
2. Leverage at the aggregate fund level shall not exceed 60%
3. Real Estate Investments shall be structured to include clearly defined redemption provisions
4. Investment managers shall value all investments at least annually
5. Independent third party valuations shall be obtained, at a minimum, every three years (subsequent to completion of construction) or on an as needed basis.
6. Eligible investments, diversification and other specific parameters for the management of the REF are outlined in the fund structure appendix (See Appendix “A”, Section II)
7. No more than 10 percent of the target REF shall be allocated to any one individual commingled fund in which the CRPTF does not have the ability to exit the investment or terminate the manager. Separate Accounts shall not exceed 20% of the target REF.
8. No single investment manager shall manage more than 25 percent of the market value of the REF allocation
9. Portfolio cash balances shall be invested by the custodian in the Liquidity Fund.



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10. General Partners shall adhere to the specific investment, security and benchmark diversification limits and administrative guidelines established for their portfolios in their GCA. The management style of the portfolio shall not be changed without the written consent of the Treasurer.
11. General Partners shall be required to ensure that all REF investments adhere to all limitations imposed by Connecticut and/or federal law.



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Article XI. Private Investment Fund

A. Statement of Purpose

The Private Investment Fund (“PIF”) shall invest in various private equity strategies and vehicles in order to meet the CRPTF asset allocation guidelines for Private Equity. The purpose of the PIF is to earn returns in excess of the public equity markets and generate attractive risk-adjusted rates of return. The PIF is also expected to reduce the impact of market volatility by diversifying the total asset base.

B. Description of the Fund

The PIF investments will generally be made in externally managed limited partnerships or through separate accounts that focus on private equity investments.

Private equity includes both Venture Capital and Corporate Finance investment strategies. Venture Capital typically involves equity capital invested in young or development stage companies, whether start-up, early, mid or late stage companies. Corporate Finance typically involves equity and debt capital invested in growth, mature or distressed stage companies, often through the financing of acquisitions, spin-offs, mergers or changes in capitalization.

C. Performance Benchmark and Objectives

The Performance Objective of PIF is to achieve a net return that, at a minimum, matches the benchmark, over rolling three-to five-year periods. The ability of an investment manager to outperform a benchmark will be contingent upon the amount of risk allowed in the contract and the current market conditions. Therefore, the objective above the benchmark will be based on the amount of excess return in the marketplace given the level of risk. This policy outlines the level of risk. Appendix “A”, Section II of this document, outlines the objective, and will be modified by the Treasurer as market conditions change, and endorsed by the IAC.

The target expected rate of return on any individual investment within PIF shall be based upon the particular investment strategy employed. Private equity investments often do not report a positive return until the third through fifth year of operation. By the end of the fifth year, each separate account or limited partnership is expected to be profitable and by the end of the tenth year, the annualized rate of return of each separate account or limited partnership is expected to achieve the target returns outlined above.



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D. Investment Guidelines

In general, the following PIF investment restrictions/limitations apply to all PIF investments unless otherwise authorized in the specific General Contract Agreement (GCA) with the Treasurer. The CRPTF will seek to negotiate partnership agreements that ensure accountability, alignment of interests between the general partners and the limited partners, complete disclosure of all actions taken that affect or have the potential to affect the limited partners, language that ensures no conflicts of interests, provisions that allow the CRPTF to sell its limited partnership interest, a “no-fault divorce clause” and protections for the limited partners in the event of changes within the general partnership, the existence of an advisory board and language that describes how any conflicts would be handled, specific language on valuation standards for investments, provisions that limit the general partners ability to concentrate investments of the partnership in one company or enterprise, and the ability for the CRPTF to have co-investment rights in any underlying investment of the partnership.

Partnership selection shall entail a comprehensive, thorough process of due diligence and investigation of the critical factors on which an investment decision is to be based, including quantitative and qualitative analysis of the general partner, its professionals and their ability to successfully implement their stated investment strategy within the context of current and prospective market environments. The partnership's relative investment worthiness will be assessed within this context. To the extent necessary and feasible, a site visit will be conducted as part of this process.

1. General Partners shall adhere to the investment strategy, diversification limits and administrative guidelines described in their private placement memorandum and contracts. The management style of the portfolio shall not be changed without the written consent of the Treasurer;
2. General Partners shall be required to ensure that all PIF investments adhere to all limitations imposed by Connecticut and/or federal law;
3. No more than 10% of the CRPTF's total private equity program should be invested in any one fund;
4. No more than 25% of the CRPTF's total private equity program should be invested with any one fund sponsor or manager; and
5. The CRPTF's commitment should be no more than 20% of the total amount committed to a single fund, provided that in the case of an investment with a partnership targeting under served geographical areas and populations with a focus on Connecticut, this restriction may be waived.



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Article XII. Liquidity Fund

A. Statement of Purpose

The objective of the Liquidity Fund (“LF”) shall be to provide a liquid source of funds to make benefit payments while allowing the other investment funds to remain fully invested. It is expected that the LF will earn a return greater than that of money market investment by investing in longer horizons within the short-end of the yield curve.

B. Description of the Fund

The LF consists of three types of investments:

1. Short-term assets which include the cash balance, contributions which are used routinely to make benefit payments and for other cash needs of the plan. The short-term portion of the LF assets should be managed consistent with money market guidelines.
2. Intermediate term assets that may include enhanced cash and intermediate duration fixed income securities.
3. Longer-term assets which are characterized as liquid securities on the longer end of the short-term yield curve.
4. This fund may include portfolios managed by the Treasury’s Cash Management Division, including STIF, STIF Plus and the extended investment portfolio.

C. Performance Benchmark and Objectives

The benchmark for the LF will be one-month LIBOR.

D. Guidelines for Asset Fund

In general, the following LF investment restrictions/limitations apply to all LF money managers unless otherwise authorized in the money manager’s specific Investment Management Agreement (IMA) with the Treasurer. Therefore, money managers:

1. shall purchase only securities that are readily marketable.
2. shall not make any short sales.
3. shall not make use of leverage or margin purchasing.
4. shall not purchase futures or options.
5. shall not purchase convertible bonds.



INVESTMENT POLICY STATEMENT

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6. shall adhere to the specific investment, security and benchmark diversification limits and administrative guidelines established for their portfolios in their IMA. The management style of the portfolio shall not be changed without the written consent of the Treasurer.
7. shall be required to ensure that all LF investments adhere to all limitations imposed by Connecticut and/or federal law.



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Article XIII. Alternative Investment Fund

The Asset Allocation Plan adopted as part of this revised Investment Policy Statement includes a new investment class: the Alternative Investment Fund. The purpose of the Alternative Investment Fund ("AIF") is to provide the Treasurer, in consultation with the IAC, the ability to invest CRPTF assets in investment strategies which offer the potential to enhance return characteristics and/or reduce risk. The AIF will provide a vehicle for investment in portfolio strategies which are not easily classified, categorized, or described in the other investment funds. Hybrid strategies which contain multiple asset classes would also be considered part of the opportunity set.

As currently detailed in this IPS, the development of the AIF will evolve over time. The Treasurer, in consultation with the IAC will further develop the description of the security types that will comprise the Fund, performance objectives, investment guidelines and the approach to hire investment management firm(s) to oversee the implementation of the strategies articulated for the Fund. As the details of the AIF asset class and plan for implementation are fully developed, this IPS will be amended to reflect those details.

APPENDIX A
SECTION I
PLANS AND TRUST FUNDS ASSET ALLOCATION



INVESTMENT POLICY STATEMENT

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APPENDIX A, SECTION I-INTRODUCTION

The following tables reflect the implemented recommendations from the 2006 asset liability study. This study differed significantly from the last study conducted in 1999-2000 as more analysis was done of each of the individual plans. It has become more evident since the last asset liability review that each plan and trust has a different funding status or disbursement requirement and, therefore, a more customized asset allocation plan is required.

Two new asset classes have been added: the Alternative Investment Fund and the Liquidity Fund. The main objective of the Alternative Investment Fund is to enhance return characteristics and/or reduce risk. By utilizing this asset class, in theory, more excess return will be generated with less risk for the portfolios as a whole. The Liquidity Fund will encompass the full array of highly liquid investment opportunities and will better serve each of the plans and trusts in meeting their recognized cash needs.

In addition, the allocation to international equities is now broken out into two classes: Developed and Emerging markets. The allocations within fixed income are also more finely broken down into Core, Inflation Linked Bonds, High Yield Bonds, and Emerging Market Debt.

The tables below outline the asset allocation plans chosen for each plan given their specified funding needs and objectives. This process is more dynamic, and as such, requires the use of asset allocation ranges instead of specific asset allocation targets. The asset allocation ranges contemplates the implementation of the Alternative Investment Fund, which will evolve over a longer period of time.



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Proposed amendments to the Teacher's Retirement Fund asset allocation were presented at the regularly scheduled May 14, 2008 meeting of the Investment Advisory Council; consideration for approval of the amendments, as well as a vote to approve, occurred at the June 9, 2008 regularly scheduled meeting of the Investment Advisory Council.

State of Connecticut Teacher's Retirement Fund Asset Allocation Policy and Relative Ranges

Asset Class	Asset Allocation Target Range		Lower Bound	Upper Bound
<i>Mutual Equity Fund</i>	25%	22%	17%	35%
<i>Developed Market International Stock Fund</i>	20%	18%	13%	27%
<i>Emerging Market International Stock Fund</i>	9%	9%	6%	12%
<i>Core Fixed Income Fund</i>	13%	11%	9%	20%
<i>Inflation Linked Bond Fund</i>	6%	5%	4%	8%
<i>Emerging Market Debt Fund</i>	4%	4%	3%	5%
<i>High Yield Bond Fund</i>	2%	2%	1%	3%
<i>Real Estate Fund</i>	5%	5%	4%	7%
<i>Private Equity</i>	10%	10%	8%	14%
<i>Alternative Investments</i>	0%	8%	0%	10%
<i>Liquidity Fund</i>	6%	6%	4%	10%
	100%	100%		



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State of Connecticut Retirement Plans & Trust Funds
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Proposed amendments to the State Employees' Retirement Fund asset allocation were presented at the regularly scheduled May 14, 2008 meeting of the Investment Advisory Council; consideration for approval of the amendments, as well as a vote to approve, occurred at the June 9, 2008 regularly scheduled meeting of the Investment Advisory Council.

State of Connecticut State Employees' Retirement Fund Asset Allocation Policy and Relative Ranges

Asset Class	Asset Allocation Target Range		Lower Bound	Upper Bound
<i>Mutual Equity Fund</i>	26%	23%	17%	35%
<i>Developed Market International Stock Fund</i>	20%	18%	13%	27%
<i>Emerging Market International Stock Fund</i>	9%	9%	6%	12%
<i>Core Fixed Income Fund</i>	13%	11%	9%	20%
<i>Inflation Linked Bond Fund</i>	6%	5%	4%	8%
<i>Emerging Market Debt Fund</i>	4%	4%	3%	5%
<i>High Yield Bond Fund</i>	2%	2%	1%	3%
<i>Real Estate Fund</i>	5%	5%	4%	7%
<i>Private Equity</i>	11%	11%	8%	14%
<i>Alternative Investments</i>	0%	8%	0%	10%
<i>Liquidity Fund</i>	4%	4%	2%	7%
	100%	100%		



INVESTMENT POLICY STATEMENT

State of Connecticut Retirement Plans & Trust Funds
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Proposed amendments to the Municipal Employees' Retirement Fund asset allocation were presented at the regularly scheduled May 14, 2008 meeting of the Investment Advisory Council; consideration for approval of the amendments, as well as a vote to approve, occurred at the June 9, 2008 regularly scheduled meeting of the Investment Advisory Council.

State of Connecticut Municipal Employees' Retirement Fund Asset Allocation Policy and Relative Ranges

Asset Class	Asset Allocation Target Range		Lower Bound	Upper Bound
<i>Mutual Equity Fund</i>	20%	16%	12%	27%
<i>Developed Market International Stock Fund</i>	16%	12%	8%	21%
<i>Emerging Market International Stock Fund</i>	8%	8%	6%	10%
<i>Core Fixed Income Fund</i>	19%	19%	14%	26%
<i>Inflation Linked Bond Fund</i>	10%	10%	7%	13%
<i>Emerging Market Debt Fund</i>	5%	5%	3%	7%
<i>High Yield Bond Fund</i>	2%	2%	1%	3%
<i>Real Estate Fund</i>	7%	7%	5%	9%
<i>Private Equity</i>	10%	10%	7%	13%
<i>Alternative Investments</i>	0%	8%	0%	10%
<i>Liquidity Fund</i>	3%	3%	1%	6%
	100%	100%		



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Proposed amendments to the Probate Judges and Employees Retirement Fund asset allocation were presented at the regularly scheduled May 14, 2008 meeting of the Investment Advisory Council; consideration for approval of the amendments, as well as a vote to approve, occurred at the June 9, 2008 regularly scheduled meeting of the Investment Advisory Council.

State of Connecticut Probate Judges and Employees Retirement Fund Asset Allocation Policy and Relative Ranges

Asset Class	Asset Allocation Target Range		Lower Bound	Upper Bound
<i>Mutual Equity Fund</i>	20%	16%	12%	27%
<i>Developed Market International Stock Fund</i>	15%	11%	8%	21%
<i>Emerging Market International Stock Fund</i>	8%	8%	6%	10%
<i>Core Fixed Income Fund</i>	19%	19%	14%	26%
<i>Inflation Linked Bond Fund</i>	9%	9%	7%	13%
<i>Emerging Market Debt Fund</i>	5%	5%	3%	7%
<i>High Yield Bond Fund</i>	2%	2%	1%	3%
<i>Real Estate Fund</i>	7%	7%	5%	9%
<i>Private Equity</i>	9%	9%	7%	13%
<i>Alternative Investments</i>	0%	8%	0%	10%
<i>Liquidity Fund</i>	6%	6%	4%	10%
	100%	100%		



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Proposed amendments to the State Judges Retirement Fund asset allocation were presented at the regularly scheduled May 14, 2008 meeting of the Investment Advisory Council; consideration for approval of the amendments, as well as a vote to approve, occurred at the June 9, 2008 regularly scheduled meeting of the Investment Advisory Council.

State of Connecticut State Judges Retirement Fund Asset Allocation Policy and Relative Ranges

Asset Class	Asset Allocation Target Range		Lower Bound	Upper Bound
<i>Mutual Equity Fund</i>	20%	16%	12%	27%
<i>Developed Market International Stock Fund</i>	16%	12%	8%	21%
<i>Emerging Market International Stock Fund</i>	8%	8%	6%	10%
<i>Core Fixed Income Fund</i>	19%	19%	14%	26%
<i>Inflation Linked Bond Fund</i>	10%	10%	7%	13%
<i>Emerging Market Debt Fund</i>	5%	5%	3%	7%
<i>High Yield Bond Fund</i>	2%	2%	1%	3%
<i>Real Estate Fund</i>	7%	7%	5%	9%
<i>Private Equity</i>	10%	10%	7%	13%
<i>Alternative Investments</i>	0%	8%	0%	10%
<i>Liquidity Fund</i>	3%	3%	1%	6%
	100 %	100%		



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**State of Connecticut
State's Attorneys' Retirement Fund
Asset Allocation Policy and Relative Ranges**

Asset Class	Asset Allocation Target Range	Lower Bound	Upper Bound
<i>Mutual Equity Fund</i>			
<i>Developed Market International Stock Fund</i>			
<i>Emerging Market International Stock Fund</i>			
<i>*Core Fixed Income Fund</i>			
<i>Inflation Linked Bond Fund</i>			
<i>Emerging Market Debt Fund</i>			
<i>High Yield Bond Fund</i>			
<i>Real Estate Fund</i>			
<i>Private Equity</i>			
<i>Alternative Investments</i>			
<i>Liquidity Fund</i>			
100%			

NOTE: Asset Allocation study currently in process. Current Investment Policy Statement does not contain asset allocation ranges.

**Formerly Mutual Fixed Income Fund*



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State of Connecticut Policemen and Firemen Survivors' Benefit Fund Asset Allocation Policy and Relative Ranges

Asset Class	Asset Allocation Target Range	Lower Bound	Upper Bound
<i>Mutual Equity Fund</i>			
<i>Developed Market International Stock Fund</i>			
<i>Emerging Market International Stock Fund</i>			
<i>*Core Fixed Income Fund</i>			
<i>Inflation Linked Bond Fund</i>			
<i>Emerging Market Debt Fund</i>			
<i>High Yield Bond Fund</i>			
<i>Real Estate Fund</i>			
<i>Private Equity</i>			
<i>Alternative Investments</i>			
<i>Liquidity Fund</i>			
	100%		

NOTE: Asset Allocation study currently in process. Current Investment Policy Statement does not contain asset allocation ranges.

**Formerly Mutual Fixed Income Fund*



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 FUNDS ALLOCATION APPENDIX

**State of Connecticut
 Agricultural College Fund
 Asset Allocation Policy and Relative Ranges**

Asset Class	Asset Allocation Target Range	Lower Bound	Upper Bound
<i>Mutual Equity Fund</i>	25%	20%	30%
<i>Developed Market International Stock Fund</i>			
<i>Emerging Market International Stock Fund</i>			
<i>*Core Fixed Income Fund</i>	70%	63%	77%
<i>Inflation Linked Bond Fund</i>			
<i>Emerging Market Debt Fund</i>			
<i>High Yield Bond Fund</i>			
<i>Real Estate Fund</i>			
<i>Private Equity</i>			
<i>Alternative Investments</i>			
<i>Liquidity Fund</i>	5%	3%	7%
	100%		

Note: Publicly listed common stock investments in U.S. equity securities are subject to a statutory limit of 60% of the AGRI's total portfolio.

Additional Note: In a recent audit finding the State Auditors of Public Accounts opined that the "Agricultural College Fund limits possible investments to 'Federal, state or other safe bonds'." However, it has been the practice of the CRPTF to invest a small amount of the fund's assets in U.S. Equities for as far back as anyone can remember. And while an Attorney General Opinion (August 9, 1996) to former Treasurer Christopher Burnham points out the limitations imposed by the original Act of Congress, the Connecticut General Statutes, Section 3-40 et seq. appears to contemplate that the fund will have holdings in securities other than bonds. Further analysis will need to be done as to whether the current asset allocation (Table 1, above) needs to be changed.

NOTE: Asset Allocation study currently in progress. Mutual Equity Fund and Mutual Fixed Income Fund have been restructured and as such, current policy targets are 25% Mutual Equity Fund and 70% Mutual Fixed Income Fund and do not match new fund structure.

**Formerly Mutual Fixed Income Fund*



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**State of Connecticut
 Andrew C. Clark Fund
 Asset Allocation Policy and Relative Ranges**

Asset Class	Asset Allocation Target Range	Lower Bound	Upper Bound
<i>Mutual Equity Fund</i>	25%	20%	30%
<i>Developed Market International Stock Fund</i>			
<i>Emerging Market International Stock Fund</i>			
<i>*Core Fixed Income Fund</i>	70%	63%	77%
<i>Inflation Linked Bond Fund</i>			
<i>Emerging Market Debt Fund</i>			
<i>High Yield Bond Fund</i>			
<i>Real Estate Fund</i>			
<i>Private Equity</i>			
<i>Alternative Investments</i>			
<i>Liquidity Fund</i>	5%	3%	7%
	100%		

Note: Publicly listed common stock investments including U.S. equity securities are subject to a statutory limit of 60% of the ACCF's total portfolio.

Any material changes necessary would be pursuant to the findings of an asset allocation/liability study of the ACCF.

NOTE: Asset Allocation study currently in progress. Mutual Equity Fund and Mutual Fixed Income Fund have been restructured and as such, current policy targets are 25% Mutual Equity Fund and 70% Mutual Fixed Income Fund and do not match new fund structure.

**Formerly Mutual Fixed Income Fund*



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**State of Connecticut
Arts Endowment Fund
Asset Allocation Policy and Relative Ranges**

Asset Class	Asset Allocation Target Range	Lower Bound	Upper Bound
<i>Mutual Equity Fund</i>			
<i>Developed Market International Stock Fund</i>			
<i>Emerging Market International Stock Fund</i>			
<i>*Core Fixed Income Fund</i>	100 %	N/A	N/A
<i>Inflation Linked Bond Fund</i>			
<i>Emerging Market Debt Fund</i>			
<i>High Yield Bond Fund</i>			
<i>Real Estate Fund</i>			
<i>Private Equity</i>			
<i>Alternative Investments</i>			
<i>Liquidity Fund</i>			
	100%		

Any material changes necessary would be pursuant to the findings of an asset allocation/liability study of the ARTS.

NOTE: Asset Allocation study currently in progress. The Mutual Fixed Income Fund has been reallocated, and therefore this allocation does not match.

**Formerly Mutual Fixed Income Fund*



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**State of Connecticut
 Hopemead Fund
 Asset Allocation Policy and Relative Ranges**

Asset Class	Asset Allocation Target Range	Lower Bound	Upper Bound
<i>Mutual Equity Fund</i>	25%	20%	30%
<i>Developed Market International Stock Fund</i>			
<i>Emerging Market International Stock Fund</i>			
<i>*Core Fixed Income Fund</i>	70%	63%	77%
<i>Inflation Linked Bond Fund</i>			
<i>Emerging Market Debt Fund</i>			
<i>High Yield Bond Fund</i>			
<i>Real Estate Fund</i>			
<i>Private Equity</i>			
<i>Alternative Investments</i>			
<i>Liquidity Fund</i>	5%	3%	7%
	100%		

Note: Publicly listed common stock investments including U.S. equity securities are subject to a statutory limit of 60% of the HOPE's total portfolio.

Any material changes necessary would be pursuant to the findings of an asset allocation/liability study of the HOPE.

NOTE: Asset Allocation study currently in progress. Mutual Equity Fund and Mutual Fixed Income Fund have been restructured and as such, current policy targets are 25% Mutual Equity Fund and 70% Mutual Fixed Income Fund and do not match new fund structure.

**Formerly Mutual Fixed Income Fund*



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State of Connecticut Ida Eaton Cotton Fund Asset Allocation Policy and Relative Ranges

Asset Class	Asset Allocation Target Range	Lower Bound	Upper Bound
<i>Mutual Equity Fund</i>	25%	20%	30%
<i>Developed Market International Stock Fund</i>			
<i>Emerging Market International Stock Fund</i>			
<i>*Core Fixed Income Fund</i>	70%	63%	77%
<i>Inflation Linked Bond Fund</i>			
<i>Emerging Market Debt Fund</i>			
<i>High Yield Bond Fund</i>			
<i>Real Estate Fund</i>			
<i>Private Equity</i>			
<i>Alternative Investments</i>			
<i>Liquidity Fund</i>	5%	3%	7%
	100%		

Note: Publicly listed common stock investments including U.S. equity securities are subject to a statutory limit of 60% of the IDAE's total portfolio.

Any material changes necessary would be pursuant to the findings of an asset allocation/liability study of the IDAE.

NOTE: Asset Allocation study currently in progress. Mutual Equity Fund and Mutual Fixed Income Fund have been restructured and as such, current policy targets are 25% Mutual Equity Fund and 70% Mutual Fixed Income Fund and do not match new fund structure.

**Formerly Mutual Fixed Income Fund*



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**State of Connecticut
 School Fund
 Asset Allocation Policy and Relative Ranges**

Asset Class	Asset Allocation Target Range	Lower Bound	Upper Bound
<i>Mutual Equity Fund</i>	25%	20%	30%
<i>Developed Market International Stock Fund</i>			
<i>Emerging Market International Stock Fund</i>			
<i>*Core Fixed Income Fund</i>	70%	63%	77%
<i>Inflation Linked Bond Fund</i>			
<i>Emerging Market Debt Fund</i>			
<i>High Yield Bond Fund</i>			
<i>Real Estate Fund</i>			
<i>Private Equity</i>			
<i>Alternative Investments</i>			
<i>Liquidity Fund</i>	5%	3%	7%
	100%		

Note: Publicly listed common stock investments including U.S. equity securities are subject to a statutory limit of 60% of the SCOL's total portfolio.

Any material changes necessary would be pursuant to the findings of an asset allocation/liability study of the SCOL.

NOTE: Asset Allocation study currently in progress. Mutual Equity Fund and Mutual Fixed Income Fund have been restructured and as such, current policy targets are 25% Mutual Equity Fund and 70% Mutual Fixed Income Fund and do not match new fund structure.

**Formerly Mutual Fixed Income Fund*



INVESTMENT POLICY STATEMENT

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State of Connecticut Soldiers' Sailors' & Marines' Fund Asset Allocation Policy and Relative Ranges

Asset Class	Asset Allocation Target Range	Lower Bound	Upper Bound
Mutual Equity Fund	8%	4%	12%
Developed Market International Stock Fund			
Emerging Market International Stock Fund			
*Core Fixed Income Fund	90%	85%	95%
Inflation Linked Bond Fund			
Emerging Market Debt Fund			
High Yield Bond Fund			
Real Estate Fund			
Private Equity			
Alternative Investments			
Liquidity Fund	2%	1%	3%
	100%		

Note: Publicly listed common stock investments including U.S. equity securities are subject to a statutory limit of 60% of the SSMF's total portfolio.

Any material changes necessary would be pursuant to the findings of an asset allocation/liability study of the SSMF.

NOTE: Asset Allocation study currently in progress. The Mutual Fixed Income Fund and Mutual Equity Fund have been reallocated, and the targets above no longer match.

**Formerly Mutual Fixed Income Fund*



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ASSET CLASS STRUCTURE/BENCHMARKS

APPENDIX A SECTION II COMBINED INVESTMENT FUNDS ASSET CLASS STRUCTURE/BENCHMARKS



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COMBINED INVESTMENT FUND – ASSET ALLOCATION RANGES

The sub-asset allocation composition for the individual funds listed below will be driven, cumulatively, by the asset allocation decisions of each individual plan and trust. The three largest plans, SERF, TERF and CMERF, represent over 95 percent the total assets under management, and therefore, will carry a high level of influence on the overall asset allocation target for individual funds. The two charts below represent the asset allocation target ranges based on the two portfolio types from the plan and trust asset allocation.

	Asset Allocation Target Range	Lower Range %	Upper Range %	Benchmark
Mutual Equity Fund (MEF)	21% - 17%	14%	25%	Russell 3000 Index + 65-135 bps
Developed Markets International Stock Fund (DMISF)	16% - 12%	9%	19.5%	S&P/Citigroup BMI EPAC + 100-250 bps
Emerging Markets International Stock Fund (EMISF)	8%	5%	11%	MSCI EMF +200 bps
Core Fixed Income Fund (CFIF)	20%	19%	23%	Lehman Aggregate + 37.5-125 bps
Inflation Linked Bond Fund (ILBF)	10%	9.5%	10.5%	LB TIPS + 20-40 bps
Emerging Markets Debt Fund (EMDF)	5%	3%	7%	J.P. Morgan EMBI Global/ J.P. Morgan GBI-EM Global + 100-200 bps
High Yield Bond Fund (HYBF)	2%	1%	3%	Citigroup High Yield Mkt. + 150-300 bps
Private Investment Fund (PIF)	10%	5%	15%	S&P 500 + 500 bps
Real Estate Fund (REF)	7%	6%	8%	NCREIF Property
Liquidity Investment Fund (LIF)	1%	.5%	3%	1-month LIBOR flat
Alternative Investment Fund (AIF)	0% - 8.0%	0%	10%	90 Day T-Bills + 400 bps

Note: CMERF has this asset allocation



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	Asset Allocation Target Ranges	Lower Range %	Upper Range %	Benchmark
Mutual Equity Fund (MEF)	27% - 24.0%	20.0	32.0	Russell 3000 Index + 65-135 bps
Developed Markets International Stock Fund (DMISF)	21% - 19.0%	15.0	26.0	S&P/Citigroup BMI EPAC + 100-250 bps
Emerging Markets International Stock Fund (EMISF)	9.0%	6.0	12.0	MSCI EMF + 200 bps
Core Fixed Income Fund (CFIF)	14% - 12.0%	11.0	16.0	Lehman Aggregate +37.5-125 bps
Inflation Linked Bond Fund (ILBF)	6% to 5.0%	4.5	6.5	LB TIPS + 20-40 bps
Emerging Markets Debt Fund (EMDF)	4.0%	3.0	5.0	J.P. Morgan EMBI Global/ J.P. Morgan GBI-EM Global + 100-200 bps
High Yield Bond Fund (HYBF)	2.0%	1.5	2.5	Citigroup High Yield Mkt. + 150-300 bps
Private Investment Fund (PIF)	11.0%	7.0	15.0	S&P 500 + 500 bps
Real Estate Fund (REF)	5.0%	4.0	6.0	NCREIF Property
Liquidity Investment Fund (LIF)	1.0%	0.5	3.0	1-month LIBOR flat
Alternative Investment Fund (AIF)	0% - 8.0%	0.0	10.0	90 Day T-Bills + 400 bps

Note: SERF and TERF have this allocation.

Asset Class Guidelines – Equity and Fixed-Income Funds

Manager Strategies / Styles

In order to meet the benchmark and fund objectives of each asset class, the Treasurer will utilize a combination of the following money manager styles and strategies. As noted in Part I, Article IX, the size, number and style of money managers retained within each



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Asset Class Fund will be determined by the Treasurer's reasonable and prudent considerations to create optimal multi-money manager complements. In creating multiple money manager portfolios of assets, money manager structuring is designed to optimize the combination of money managers within an Asset Class. Each money manager will individually provide a value added function so that the blend of money managers within the Asset Class Fund achieves its desired return target while maintaining acceptable levels of risk and diversification.

- **Passive** – money manager attempts to match the index in terms of performance and characteristics.
- **Enhanced index** – money manager incrementally assumes modest tracking error through a proprietary value-added strategy.
- **Active Core** – money manager is acutely aware of benchmark relative exposures (*capitalization, style, industries, etc.*) and actively seeks out performance above the Fund's Asset Class with a normalized tracking error.
- **Active Specialist** – money manager is acutely aware of benchmark relative exposures within a Sub-Asset Class (*ex: within a particular capitalization, style, or industry*) and actively seeks out performance above the Sub-Asset Class as shown through stronger Information Ratios.
- **Small Cap** – money manager is constrained to an investment universe of smaller capitalization securities (normally capped around \$2 billion).
- **Opportunistic** – money manager's investment strategies include specially created or newly innovative products which may not be easily classifiable and/or currently not widely available in the institutional marketplace.

Currency Strategy

As an investor in the international equity markets, the CRPTF is also an investor in the foreign currencies in which these stocks are denominated. Over the long term, returns of foreign currencies are expected to be zero. However, in the short and intermediate term, currency movements can have a meaningful impact on the returns of an international equity portfolio. A strategic hedge ratio of 50% was adopted for the developed market international stock fund (DMISF). This strategic hedge ratio represents the neutral stance or desired long-term exposure to currency for the DMISF.

To implement this policy, currency specialists will manage the currency portfolio as an overlay strategy to the equity investment managers. These specialists may manage the portfolio passively or actively depending on opportunities in the marketplace. An active specialist(s) may be retained if the Treasurer believes this/these specialist(s) may add incremental value to the investment program.



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ASSET CLASS STRUCTURE/BENCHMARKS

Watch List Procedure

Purpose:

In accordance with Part I, Article XI of the State of Connecticut Retirement Plans & Trust Funds (“CRPTF”) Investment Policy Statement, the Treasurer shall regularly monitor the investment performance at the total fund, asset class, and individual money manager levels.

In addition, at the three year investment horizon, utilizing a staggered review schedule, the treasurer will conduct a comprehensive review of each money manager. A report of findings will be prepared and include a recommendation to continue, terminate or place the money manager on the watch list. All three-year comprehensive reviews will be reported to the IAC. These comprehensive reviews will continue every three years thereafter for as long as the money manager oversees funds for the CRPTF.

Periodically, it may be necessary, in the best interests of the CRPTF, to place a money manager on a Watch List, either as a result of the regular monitoring of individual money managers or the comprehensive money manager evaluation. The following conditions can trigger placement on the Watch List.

Conditions :

The following conditions can trigger placement on the Watch List:

- The money manager significantly under-performs its benchmark for three consecutive quarters;
- The money manager experiences turnover of key members of the investment professional staff;
- The CRPTF becomes aware of a significant event affecting the money manager such as (but not limited to) change of control; a large quarterly loss; the disclosure of Securities & Exchange Commission (“SEC”) or other federal investigations or inquiries into the manager operations;
- Violation of investment guidelines;
- A change in the portfolio characteristics or risk profile, which may indicate style drift; or
- Any other event that could affect the money manager’s ability to perform its investment management responsibilities for the CRPTF.



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Action

The Chief Investment Officer, with input from staff and/or consultants as appropriate, will make a recommendation to the Treasurer to place a money manager on the Watch List. At the time of the recommendation, an indication will be given to the Treasurer of the criteria that may be considered in the monitoring phase.

Subsequent Actions :

Once a money manager is placed on the Watch List, the situation triggering such placement will be reviewed by the Treasurer and/or the Chief Investment Officer. This review will entail a comprehensive analysis of the situation, through various means, such as site visits, conference calls, assessment of the likely impact of the situation, etc. An analysis and recommendation will be delivered to the Treasurer by the Chief Investment Officer. If such analysis alleviates the concerns of the Treasurer, the money manager will be removed from the Watch List. If such analysis does not alleviate the concerns of the Treasurer, a decision will be made whether to (a) continue to monitor the money manager, or (b) terminate the money manager.

It is expected that a money manager on the Watch List will be reviewed every six months for a status review. That said, there is no stated time constraint under which a decision to continue monitoring, terminate or remove the money manager from the Watch List. Each situation will be handled on an individual basis, but wholly consistent with the Watch List framework articulated in Part I Article XI of the Investment Policy Statement.

Notification to the Investment Advisory Council (“IAC”):

The Treasurer shall inform the IAC of any decision to place a money manager on the Watch List and thereafter shall report on any change in status of the issues that led to placement of the money manager on the Watch List or any action taken.



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ASSET CLASS GUIDELINES-REAL ESTATE FUND

Manager Strategies/Style⁸

The Real Estate Fund's ("REF" or the "Fund") portfolio performance shall be benchmarked against the total rate of return of the National Council of Real Estate Investment Fiduciaries Property Index ("NCREIF Property Index"). Additional criteria will be applied to the performance of investment managers, having a focus on a particular property sector or geographic location and for investments having higher risk strategies.

The REF shall be divided in three segments, the Core Portfolio, the Value-Added Portfolio and the Opportunistic Portfolio. Assignment of an investment to a particular portfolio shall be based on the investment's risk and return characteristics.

Strategic Objectives of the Core, Value-Added Opportunistic and Publicly Traded Portfolios:

Under this structure, the strategic objectives of the Core Portfolio are to: (i) produce stable current income and (ii) market level returns commensurate with a low to moderate level of risk. Hence, the performance of the Core Portfolio is expected to mirror the composite NCREIF Property Index, on a net-of-fee basis.

The Value-Added Portfolio is expected to produce higher returns than the Core Portfolio, subject to an incrementally greater amount of risk, thereby enhancing the overall performance of the REF. The Value-Added Portfolio is expected to provide solid income and greater levels of appreciation than anticipated in the Core Portfolio. The Value-Added Portfolio is expected to outpace the NCREIF Property Index by 200 basis points, on a net-of-fee basis.

The Opportunistic Portfolio is expected to enhance performance of the REF, and to provide additional diversification to the real estate portfolio. The Opportunistic Portfolio may offer limited current income and returns are often largely dependent on future appreciation. The Opportunistic Portfolio is expected to outpace the NCREIF Property Index by 500 basis points, on a net-of-fee basis.

Allocation to the Core, Value-Added, Opportunistic, and Publicly Traded Portfolios:

Allocations to the Core, Value-Added, Opportunistic and Publicly Traded Portfolios shall be made to maximize the total return to CRPTF while mitigating risk.

⁸ Including up to 5% of the REF for partnerships targeting underserved geographical areas and populations, with a focus on Connecticut.



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Portfolio Segment	Allocation Range	Target Allocation
Core	30% to 50%	40%
Value-Added	20% to 40%	30%
Opportunistic	20% to 40%	30%

All investments will be managed as approved by the Treasurer consistent with the objectives and policies of the CRPTF and subject to the provisions of the CRPTF, the contractual arrangements governing the relationship between the CRPTF and its investment managers, and the investment guidelines outlined below.

Discretion:

The Fund may enter into discretionary separate account relationships with real estate investment managers, subject to pre-approved investment guidelines, whenever possible, or clearly defined investment strategies. This delineation is known in the real estate industry as “discretion in a box”, which means the manager shall have the authority and discretion to execute a particular investment strategy only so long as each and every investment falls within the pre-approved guidelines for that investment manager’s portfolio. For this reason, investments shall be structured to facilitate alignment of interests between management and the Fund, management accountability, investment monitoring and ultimately, liquidity.

In these separate accounts, CRPTF shall have sole ownership of the assets or may joint venture with other institutional investors to acquire the asset. CRPTF will reserve the right to remove the real estate manager of any separate account, with or without cause, in a timely manner.

Alignment of Interests:

Preferred investments for the REF will be those that exhibit the highest degree of management accountability and the greatest alignment of interests. As a matter of policy, REF will seek, but will not be limited to, dedicated management teams that co-invest or have substantial ownership interest in the investment entity, controlling positions with provisions for liquidity, disclosure, as well as the mitigation of conflicts of interest.

Leverage at the aggregate Fund level should be limited to 60%. This shall be measured by comparing the principal amount of debt secured by real estate investments in the portfolio annually to the gross market value of the real estate portfolio.



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State of Connecticut Retirement Plans & Trust Funds APPENDIX A, SECTION II – COMBINED INVESTMENT FUNDS ASSET CLASS STRUCTURE/BENCHMARKS

Management of the Fund

The Treasurer, in consultation with the IAC, shall select the investment managers for the REF. In accordance with Section 3-13i of the Connecticut General Statutes, the IAC will have up to a forty-five day period following presentation of the investment opportunity in which to file a written review of the Treasurer's recommendation. While the IAC's response will be given full consideration, the ultimate decision to invest or not, resides with the Treasurer. The Treasurer and the IAC shall also review, at least quarterly, the activity and financial condition of the REF. In the event the preconditions described in Section 3-13d of the Connecticut General Statutes are met with respect to a "lame duck" period, the IAC shall assume the principal fiduciary authority of the Treasurer for investment decisions in the real estate investment fund until such time that a duly elected Treasurer is officially sworn into office.

Diversification

In portfolio theory, the principle of diversification is defined as the process of combining investment alternatives so that unique risk is reduced and the level of certainty associated with future expected returns is enhanced. This shall be accomplished in the real estate portfolio through the investment of capital among a number of different investment management organizations and in a variety of investment strategies and structures, property types and geographic regions, among other factors.

Diversification by Investment Manager:

To reduce risk, the REF shall be diversified by investment management organization. No single investment management organization shall manage more than 25% of the market value of the REF allocation.

Diversification by Geography:

To reduce risk, investments in the real estate portfolio shall be (i) well diversified by geography and (ii) primarily located in the United States. The allocation ranges for real estate located in the United States versus overseas shall be 80% to 100% to the United States and 0% to 20% to real estate markets abroad.

Based on the geographic classification system used in the NCREIF Property Index, the target allocation ranges for regions within the United States shall be as follows:

<u>Region</u>	<u>Allocation Range</u>
West	25% - 45%
Midwest	5% - 25%
East	20% - 40%
South	20% - 40%



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State of Connecticut Retirement Plans & Trust Funds APPENDIX A, SECTION II – COMBINED INVESTMENT FUNDS ASSET CLASS STRUCTURE/BENCHMARKS

Diversification by Property Type:

To reduce risk, the real estate portfolio shall be well diversified by property type and primarily invested in apartment, industrial, office and retail assets. The target allocation ranges for the four basic property types as well as “other” property types to be included in the Core Portfolio are as follows:

<u>Property Type</u>	<u>Allocation Range</u>
Apartment	10% - 30%
Industrial	10% - 30%
Office	30% - 45%
Retail	10% - 30%
Hotel	0% - 10%
Other	0% - 20%

Note: Other includes, but is not limited to, land, condominiums, golf courses, operating companies and senior housing

Diversification by Investment Size:

To mitigate risk within the real estate portfolio, the following standards shall apply. The Fund’s holdings of any private market commingled real estate investment shall be limited to no more than 20% the of outstanding equity capitalization of the vehicle at the time of investment.

Diversification by Currency:

There are no specific guidelines regarding currency diversification. However, in accordance with the Fund’s overall investment objectives of safety and convertibility, the investments in the real estate portfolio shall provide adequate currency diversification and, to the extent possible, shall be readily and fully convertible to U.S. dollars.

To this end, investments in markets which either restrict, limit or control the conversion of local currency into U.S. dollars shall be avoided or, whenever possible, U.S. dollar denominated. In addition, careful attention shall be given to the overall strength and stability of currencies at the time of investment in a local economy and ongoing basis.

Due consideration shall be given to the positives and negatives of currency protection programs including the potential to add incremental risk. For example, high amounts of leverage are often used to provide an element of currency protection for foreign investors and to shelter current income from local taxes. To the extent sheltering techniques are employed, expected returns for such investments shall take into account the risks associated with the financial overlay.



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Contracts with General Partner

The CRPTF will seek to negotiate partnership agreements that include language to ensure (i) accountability, alignment of interests between general partners and the limited partners, (ii) complete disclosure of all actions taken that affect or have the potential to affect the limited partners, (iii) no conflicts of interests, (iv) provisions that allow the CRPTF to sell its limited partnership interest, (v) provision is made for a “no fault divorce clause” and protections for the limited partners in the event of changes within the general partnership, (vi) the existence of an advisory board and language that describes how any conflicts would be handled, (vii) specific language on valuation standards for investments, (viii) provisions that limit the general partner’s ability to concentrate investments of the partnership in one company or enterprise, and (ix) the ability for the CRPTF to have co-investment rights in any underlying investment of the partnership. CRPTF will seek to obtain all of the above provisions, but recognizes that each provision may not be obtainable in each and every partnership. When or if there are deviations from this policy, the rationale for deviating from the policy shall be documented and submitted to the Treasurer for approval.

Communications, Reporting, Notification

A comprehensive performance measurement report for the real estate portfolio shall be prepared on a quarterly basis (“Performance Report”).

The Performance Report shall include a market valuation of and historical returns for each of the Fund’s investments. The valuations and returns shall be presented on a U.S. dollar basis and aggregated, along with information on investment attributes, on a portfolio basis. In addition, comparisons shall be made of actual results to benchmarks, investment parameters and other guidelines or objectives contained herein. The Performance Report shall also contain information on significant events impacting the real estate portfolio and updated information on the status of global real estate markets.

Under the direction of the CIO, staff shall endeavor to insure that investment valuations and returns which are prepared by investment managers and included in the Performance Report are calculated in accordance with guidelines established by the Association for Investment Management and Research (“AIMR”) and the National Council of Real Estate Investment Fiduciaries (“NCREIF”), the Pension Real Estate Association (“PREA”) and the National Association of Real Estate Investment Managers (“NAREIM”) as included in the most recent editions of the Real Estate Information Standards and the NCREIF Market Value Accounting Policy Manual. To the extent that investment managers do not report on the Fund’s investments in a manner consistent with the Fund’s guidelines, the CIO’s staff shall work with these investment managers to obtain the most appropriate information. The investment managers shall be notified at the inception of their contracts that the failure or inability of the investment manager to provide accurate and timely financial reporting including performance results computed in a manner consistent with AIMR guidelines may constitute grounds for termination.



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ASSET CLASS GUIDELINES - PRIVATE EQUITY FUND

Manager Strategies/Style⁹

The investment managers' discretion regarding the selection of investments shall be limited by the Treasurer's exercise of her duty to consider the consequences of such discretion in accordance with state laws and as may be addressed in the IPS. Within that context, the Treasurer recognizes that private equity is an intensively managed asset class; therefore, investments will be made within the framework of the following process:

- Development of strategic asset allocation targets for private equity.
- Development of criteria and procedures to be utilized for the selection of new private equity partnership commitments.
- Development of the performance measurement standards for private equity.
- Monitoring and evaluation of fund managers' performance on an on-going basis.
- Screening of potential private equity partnerships and reporting to the Treasurer.
- Conducting due diligence as directed by the Treasurer.
- Review by the IAC of any proposal to enter into a contract.
- Reviewing of partnership terms and conditions with recommendations for CRPTF final negotiations. Ensuring that any contract entered into includes language to establish an alignment of interest between the general partner and the CRPTF as a limited partner.
- Management of securities distributions to achieve as close to the distribution price as possible within a reasonable period of time.

The role of PIF in the long-range asset allocation strategy is to earn returns in excess of the public equity markets through investments in private companies. The target rate of return for the PIF is the ten-year average annualized return of the Standard & Poor 500, plus a 500 basis point premium.

The target expected rate of return on any individual investment within PIF shall be based upon the particular investment strategy employed:

- If the investment manager's strategy is to make equity investments in young or development stage companies, then the expected long term return on the investment is the 10-year average annualized return of the Standard & Poor 500, plus an 800 basis point premium, net of fees.
- If the investment manager's strategy is to make equity investments in mature companies, then the expected long term return on the investment is the 10-year average annualized return of the Standard & Poor 500, plus a 400 basis point premium, net of fees.

⁹ Including up to 3% for partnerships targeting under-served geographical areas and populations, with a focus on Connecticut.



INVESTMENT POLICY STATEMENT

State of Connecticut Retirement Plans & Trust Funds APPENDIX A, SECTION II – COMBINED INVESTMENT FUNDS ASSET CLASS STRUCTURE/BENCHMARKS

- If the investment manager's strategy is to purchase debt obligations, then the expected return on the investment is at least 600 basis points in excess of the yield-to-maturity on U.S. Government obligations of similar maturities, net of fees.

Given the long-term investment objectives of the PIF, the Treasurer's philosophy is to 1) manage risks to acceptable levels, 2) allocate risks where there is the greatest opportunity for enhanced return relative to a passive implementation and 3) avoid concentrated levels of risk to the extent possible. In accordance with this philosophy, the following sub-allocations shall be used as an overall target for commitment levels within the portfolio:

	Policy Target	Lower Range %	Upper Range %
Corporate Finance		60	90
Venture Capital		10	40

The volatility of the rate of return from a single investment in an underlying portfolio company is expected to be greater than that of publicly traded securities. However, the development of a portfolio of 40 to 50 private equity partnerships that comprises 500 to 700 portfolio companies should have the effect of reducing the overall volatility of the PIF over time. Furthermore, the perpetual nature of the PIF makes this risk acceptable. Diversification among the various types of private equity opportunities as well as by sector, geographically and across time (vintage year), further lessens the risk associated with a single investment.

Eligible Investments

The following private equity strategies will be considered eligible for CRPTF's portfolio:

- Early, mid, late and balanced stage venture capital funds;
- Buyout, acquisition and restructuring funds;
- Mezzanine debt funds;
- Growth funds;
- Sector-focused funds;
- Turnaround and distressed funds;
- Internationally-focused funds; and
- Any non-traditional investment approved by the Treasurer as an eligible investment.

The following investment vehicle structures will be considered eligible for CRPTF's portfolio:

- **Primary Funds:** Closed-end vehicles that invest directly in companies through privately negotiated transactions. The private equity manager serves as the general partner, with capital committed from investors, or limited partners. Primary funds are typically structured as limited partnerships with 10 to 12 year terms. Primary funds will be the predominant investment vehicle for the Program.



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- **Secondary Funds:** Closed-end vehicles that purchase existing interest in a private equity fund or portfolio of funds. Unlike Primary Funds, the buyer has the opportunity to evaluate an existing portfolio, which may be partially or fully invested, in order to determine a price.
- **Fund-of-Funds:** Closed-end vehicles that invests in other funds. Similar to primary funds, a fund-of-funds is managed by a general partner over a specified term.
- **Separate Accounts:** Externally managed investment programs. Certain market segments may not be appropriate for direct investment due to size, strategy or other constraints, but can efficiently accessed through third party managers.

Diversification

The PIF portfolio will be diversified with respect to time of investment commitment, geography, industry, strategy and stage focus. The private equity industry goes through cycles much like all the other investment asset classes. Given the illiquid nature of private equity investments, attempting to “time the market” is not a realistic alternative. Most sophisticated investors dollar cost average into the market with new commitments on a steady, annual basis.

The remaining diversification factors – strategy, geography, industry and stage – also provide hedges within the private equity marketplace to take advantage of timely opportunities and to dampen any negative effects of trends and natural cycles. Venture Capital and Corporate Finance strategies have independent market cycles, as do industries and geographic regions. Appropriate diversification works to dampen the impact of any one of these factors on the overall program.

To provide adequate diversification in geography, stage and industry, the following guidelines are for the private equity portfolio:

Geographical Diversification

One measure of diversification is by geographical location of the underlying portfolio companies. Over the long term, CRPTF’s PIF portfolio should seek portfolio diversification with regard to both developed and developing private equity geographic regions. However, in certain situations, a geographically targeted fund or fund of funds may be appropriate for the portfolio.

Allocation to developing international markets should be considered within the context of the total portfolio’s allocation and should be limited to 10% or less of the PIF.

Industry Sector Diversification

CRPTF’s PIF portfolio will also seek to diversify by industry sector. The majority of the selected partnerships will have an opportunistic and/or diversified industry focus, since



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the approach has historically been the most successful. However, with the continually increasing technological sophistication in today's more competitive business environment, some specialized funds focusing on specific industries may be appropriate.

Stage Diversification

CRPTF's PIF should be well diversified by stage, with a good balance of early stage (seed + start up + early stage), expansion and buyouts/acquisitions of established businesses.

Timing Diversification

Commitment to partnerships will be staged over time. This policy will have the effect of dollar cost averaging Connecticut's portfolio over business cycles and will help insulate the portfolio from event risk.

In summary, these diversification guidelines will provide the maximum return and safety of principal for the private equity portfolio over time.

Selection Criteria

All private equity investments and the method by which they are sourced and added to the CRPTF portfolio shall be in compliance with Connecticut State laws and statutes. Additionally, all new investments to PIF will be appropriately documented and such documentation shall meet the standards set by the Treasurer.

Partnership selection shall entail a comprehensive, thorough process of due diligence and investigation of the critical factors on which an investment decision is to be based, including quantitative and qualitative analysis of the general partner, its professionals and their ability to successfully implement their stated investment strategy within the context of current and prospective market environments. The partnership's relative investment worthiness will be assessed within this context. To the extent necessary and feasible a site visit will be conducted as part of this process.

CRPTF seeks to prudently invest in partnerships with the following characteristics:

- General partners with experience as principals relevant to their investment strategy, and evidence of stability among the general partnership team;
- An attractive track record showing the following:
 - Ability to develop a successful portfolio,
 - An acceptable rate of return on investment for investors;
 - For established general partnerships, track record of top two quartile performance when compared to their peer group by *Venture Economics*;
 - Ability to realize profits with successful exits;



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- Well-defined and realistic strategies for the future;
- Experience investing in institutional funds;
- Evidence of good communications and strong relationships with prior investors.
- Long-term dedication to the partnership;
- Special skills or industry expertise; and
- Alignment of interests between the general partners and the limited partners (as may be demonstrated by CRPTF's representation on advisory boards, percent equity participation of the general partner, conflict of interest provisions, co-investing criteria, limitations on the percentage of capital of a fund that can be committed to a single investment, etc.).

Additional Venture Capital Partnership Selection Criteria:

- Proven value-added from the general partners;
- Proven ability to find and participate in successful investments; and
- Strong relationships with other investors and entrepreneurs.

Additional Corporate Finance Partnership Selection Criteria:

- Strong pricing disciplines;
- Ability to find and structure attractive investments;
- Ability to attract appropriate senior financing; and
- Ability to add value with revitalizations or acquisitions.

Additional criteria for the consideration of first time and/or "spin-out" funds:

- Professional experience relevant to their investment strategy;
- Ability to find and participate in successful investments;
- Well-defined and realistic strategies for the future and a clearly defined mission for the fund;
- Background check of the general partners with colleagues, peers and subordinates, the public record and any other source that might provide relevant information in the investment decision-making process; and
- Special skills or industry expertise.

APPENDIX A
SECTION III
RESPONSIBLE CONTRACTOR POLICY
REAL ESTATE FUND



INVESTMENT POLICY STATEMENT
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APPENDIX A, SECTION III – RESPONSIBLE CONTRACTOR POLICY
REAL ESTATE FUND

I. INTRODUCTION

The State of Connecticut Retirement Plans & Trust Funds (“CRPTF” or “the Plan”) has a deep interest in the condition of workers employed by the Plan and its advisors. The Plan, through the Responsible Contractor Policy (“Policy”) described below, supports and encourages fair wages and fair benefits for workers employed by its contractors and subcontractors, subject to fiduciary principles concerning duties of loyalty and prudence, both of which further require competitive returns on the Plan’s real estate investments. The Plan endorses small business development, market competition, and control of operating costs. CRPTF supports many of the ideals espoused by labor unions and encourages participation by labor unions and their signatory contractors in the development and management of the Plan’s real estate investments. The Plan believes that an adequately compensated and trained worker delivers a higher quality product and service.

II. DEFINITION OF A RESPONSIBLE CONTRACTOR

A Responsible Contractor, as used in this Policy, is a contractor or subcontractor who pays workers a fair wage and a fair benefit as evidenced by payroll and employee records. “Fair benefits” are defined as including, but are not limited to, employer-paid family health care coverage, pension benefits, and apprenticeship programs. What constitutes a “fair wage” and “fair benefit” depends on the wages and benefits paid on comparable real estate projects, based upon local market factors, that include the nature of the project (e.g., residential or commercial; public or private), comparable job or trade classifications, and the scope and complexity of services provided.

III. INITIAL REQUIREMENTS OF THE RESPONSIBLE CONTRACTING POLICY

- A. Duty of Loyalty: Notwithstanding any other considerations, assets shall be managed for the exclusive benefit of the participants and the beneficiaries of CRPTF. CRPTF’s as well as its advisors’, duty to the participants and their beneficiaries shall take precedence over any other duty.
- B. Prudence: CRPTF’s IAC, Treasurer, staff and advisors are charged with the fiduciary duty to exercise the care, skill, prudence and diligence appropriate to the task.
- C. Competitive Return: To comply with duties of loyalty and prudence, all investments and services must be made and managed in a manner that produces a competitive risk-adjusted return.



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- D. Competitive Bidding: Contractors and their subcontractors for construction, maintenance, and services shall be selected through a competitive bidding and selection process. The purpose of this provision is to encourage fair competition and to actively seek bids from all qualified sources within an area, particularly those identified as Responsible Contractors. Advisors and their subcontractors shall create a bidding process that includes notification and invitations to bid, distributed to a broad spectrum of potential bidders, particularly those identified as Responsible Contractors. The review of the bids shall include consideration of loyalty, prudence, and competitive risk-adjusted returns (factors to be considered include experience, reputation for honesty, integrity, timeliness, dependability, fees, safety record, and the adherence to the Responsible Contracting Policy.)
- E. Local, State and National Laws: All advisors, property managers, contractors, and their subcontractors shall observe all local, state, and national laws (including, by way of illustration, those pertaining to insurance, withholding taxes, minimum wage, labor relations, health, and occupational safety.)

IV. SELECTION PREFERENCE OF A RESPONSIBLE CONTRACTOR

If Initial Requirements A through D (see Section III. above) are satisfied, CRPTF expresses a strong preference that Responsible Contractors be hired.

V. TRANSITION, ENFORCEMENT, MONITORING, AND ADMINISTRATION

- A. Applicable Investments and Phasing: This Policy shall apply to all applicable real estate advisors. The Policy shall not apply to investments such as hybrid debt, joint ventures, opportunity funds and other real estate investments where CRPTF does not have 100% ownership and/or full control of the investment. However, in those instances where CRPTF does not have 100% ownership and/or full control of the investment, staff will make reasonable attempts to encourage partners to comply with the spirit and practice of Responsible Contracting. In addition, reasonable efforts will be made to include fund managers that have adopted responsible contractor policies and to seek out investment opportunities that have responsible contractor policies in place for investment consideration.
- B. Notification: CRPTF shall provide all applicable current and prospective real estate advisors with a copy of this Policy, including investments where CRPTF does not have 100% ownership and/or full control of the investment.



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- C. Solicitation Documents: All requests for proposal and invitations to bid covered by this Policy shall include the terms of this Policy. Responses by bidders shall include information to assist the staff in evaluating a bid.
- D. Contracts and Renewals: All contracts entered into after the effective date of this Policy and pertaining to applicable real estate investments, including renewals of such contracts, shall include the terms of this Policy.
- E. Responsibilities: The responsibilities of CRPTF's staff, advisors, property managers, contractors, and unions are defined as follows:
 - 1. Staff: CRPTF staff shall have the following responsibilities:
 - a. Review the advisors' annual certification statement regarding compliance with the Policy.
 - b. Develop and maintain contact lists for all CRPTF's properties and provide a copy to inquiring parties.
 - c. Insert appropriate contract language where applicable.
 - d. In those instances where CRPTF does not have 100% ownership and/or full control of an investment, make reasonable attempts to encourage partners to comply with the spirit and practice of Responsible Contracting.
 - 2. Advisors: Advisors' responsibilities shall include:
 - a. Communicate the Policy to all property managers.
 - b. Review a contract listing for each property prepared by each property manager.
 - c. Maintain a simplified bid summary for each applicable contract. The summary should include identifying contract, successful bidder, and bidder's status as Responsible Contractor.
 - d. Maintain an annual report in their home office, describing their own efforts as well as those by property managers and their subcontractors.
 - e. Monitor and enforce the Policy including investigation of potential violations.
 - f. Annually, the signatory to the CRPTF contract will file a certification statement that their firm complied with the Responsible Contractor Policy for the preceding year and upon request will provide written substantiation of such compliance. This provision will be subject to periodic audits.



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State of Connecticut Retirement Plans & Trust Funds APPENDIX A, SECTION III – RESPONSIBLE CONTRACTOR POLICY REAL ESTATE FUND

3. Property Managers: Property managers will have responsibility for the following:
 - a. Communicate in bid documents the Responsible Contractor Program Policy to contractors seeking to secure construction or building service contracts.
 - b. Communicate the Policy to any interested party.
 - c. Ensure there is a competitive bidding process that is inclusive of potentially eligible Responsible Contractors.
 - d. Require bidders to provide to property manager a Responsible Contractor self-certification on a form approved by CRPTF.
 - e. Prepare and send to advisors a contract listing for applicable service contracts for each property under management. The building trades and service trades and other potential bidders will have access to this list.
 - f. Provide advisors with a simplified bid summary for each contract.
 - g. Provide property level annual report information to advisor.
 - h. Maintain documentation for successful bidders.
 - i. Seek from trade unions/service unions input in the development of Responsible Contractor lists.
 - j. Maintain list of any interested Responsible Contractors (names, addresses and telephone numbers).
4. Contractors: Contractors will have the responsibility for the following:
 - a. Submit to property manager a Responsible Contractor self-certification on a form approved by CRPTF.
 - b. Communicate to subcontractors the Responsible Contractor Program Policy.
 - c. Provide to property manager Responsible Contractor documentation.
5. Unions: Trade unions/service unions shall be asked to perform the following tasks:
 - a. Deliver to the property manager or advisor lists of names and phone numbers of Responsible Contractors.



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- b. Refer interested and qualified Responsible Contractors to the property manager.
 - c. Continually monitor the local labor markets to update the lists.
 - d. Provide technical input as appropriate.
- F. Outreach: CRPTF's staff will develop and maintain a list of all CRPTF 100% owned and/or fully controlled properties. The list will include the property name, address, advisor and property manager, and phone number of the property manager and real estate advisors. The CRPTF's staff will provide this list to anyone who requests a copy. Actual contract expiration inquiries will be referred to the property level. Property managers shall provide solicitation documents to any potential contractor who has, in writing, expressed an interest in bidding for the relevant contract.
- G. Minimum Contract Size: The Policy shall absolutely apply to all contracts of a minimum size of \$25,000, individually or annually as applicable. Minimum contract size refers to the total project value of the work being contracted for and not to any disaggregation by trade or task. For example, a \$25,000 contract to paint two buildings in a single office complex would not be treated as two \$12,500 contracts, each less than the minimum contract size. Disaggregation designed to evade the requirements of the Policy is not permitted.
- H. Applicable Expenditures Categories: The Policy shall apply to tenant improvements, capital expenditures, and operational service contracts (such as cleaning).
- I. Fair Wage, Fair Benefits, Training: The Policy avoids a narrow definition of "fair wage", "fair benefits", and "training" that might not be practical in all markets. Furthermore, the Policy does not require a "prevailing wage", as defined by government surveys. Instead, the Policy looks to local practices with regard to type of trade and type of project. The Policy recognizes that practices and labor market conditions vary across the country and that flexibility in its implementation is very important.

In determining "fair wages" and "fair benefits" with regard to a specific contract in a specific market, items that may be considered include local wage practices, state laws, prevailing wages, labor market conditions, and other items.

In place of a prevailing wage standard, the Policy requires a broad outreach and competitive bidding program, as described in Section III.D, and V.F and J. This program is premised upon the availability of a list of



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Responsible Contractors in every market in which CRPTF directly owns a property. While advisors and their property managers and contractors are responsible for gathering and analyzing information relevant to identifying and hiring a Responsible Contractor, compilation of this list does not depend solely on the advisors, property managers, or contractor. This Policy instead invites the various local trades to suggest contractors, which in their view qualify as Responsible Contractors. Sources of information include local building and service trade councils, builders association, and governments.

- J. Competitive Bidding: Property managers and contractors should give notice for applicable bids in local trade publications, bulletins, IAC's and union building trades councils. Property managers should seek input from building trades councils to develop lists of Responsible Contractors for inclusion in the bidding process.

Property managers may choose from the list of Responsible Contractors a reasonable number of contractors to be invited to bid. Given the time and expense required to solicit and evaluate bids, it is not essential that advisors, property managers, and contractors invite all potential bidders.

The property manager must ensure that there is a competitive bidding process, which is inclusive of potentially eligible Responsible Contractors. Inclusion is not necessarily assured by large numbers of bidders. Care must be taken that bidders include potentially eligible Responsible Contractors.

Although the Policy does not require hiring union workers, the trade unions will be invited to (1) deliver to the property manager or advisor lists of names and phone numbers of Responsible Contractors including those Responsible Contractors who have expressed any interest in bidding, and (2) continually monitor the local markets to update the lists, Property managers shall maintain these lists supplied by the trade unions.

- K. Neutrality: CRPTF recognizes the rights of employees to representation, and supports and strongly encourages a position of neutrality, in the event there is a legitimate attempt by a labor organization to organize workers employed in the construction, maintenance, operation, and services at a CRPTF owned property.

Resolution of any inter-jurisdictional trade disputes will be the responsibility of the trades and the various state and national building trades councils. This Policy does not call for any involvement by the advisors, property managers, or contractors in inter-jurisdictional trade disputes.



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- L. Enforcement: If Staff becomes aware of non-compliance, this Plan will place a non-complying advisor or property manager on a probation watch list. If the advisor or property manager does not modify this pattern of conduct even after discussions with CRPTF's staff, the Plan will consider this pattern of conduct along with other information when it reviews the advisor or property manager contract for possible renewal. The key indicator is a pattern of conduct that is inconsistent with the provisions of the Policy.

APPENDIX B
SECTION I

DOMESTIC/GLOBAL PROXY VOTING POLICIES



INVESTMENT POLICY STATEMENT
State of Connecticut Retirement Plans & Trust Funds

State of Connecticut Office of the Treasurer
Domestic Proxy Voting Policies

Adopted April 11, 2007

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INVESTMENT POLICY STATEMENT
State of Connecticut Retirement Plans & Trust Funds

**State of Connecticut
Office of the Treasurer
Domestic Proxy Voting Policies**

I. INTRODUCTION

This document sets forth the Connecticut Retirement Plans and Trust Funds (CRPTF) Domestic Proxy Voting Policies (hereafter referred to as the “proxy voting policies”). These proxy voting policies guide the CRPTF’s proxy voting and shareholder activism, which are essential elements of protecting and increasing the value of CRPTF equity investments. All of the major categories of issues addressed in these proxy voting policies including corporate governance, executive compensation, corporate citizenship, workplace and environmental issues are equally important in that all have financial implications for the long-term shareholder value of CRPTF investments.

The CRPTF does not expect nor seek that the board of directors of each company in which it invests will adopt or embrace every issue in the proxy voting policies. The CRPTF recognizes that some policies may not be appropriate for every company, due to differing business needs and structures as well as risk factors and competitive needs. The CRPTF looks to each board of directors to review the proxy voting policies and take appropriate action in the best interests of the company and its shareholders.

The proxy voting policies conform to common law fiduciary standards, including Connecticut statutes pertinent to fiduciary conduct, such as the Uniform Prudent Investor Act. These policies also are consistent with the provision of the Connecticut statutes that permits the Treasurer to consider the environmental, social and economic implications of investment decisions.

The proxy voting policies address a broad range of issues, including election of directors, executive compensation, proxy contests, climate change, labor standards, and other corporate governance, environmental, social, and economic issues.

All votes will be reviewed on a company-by-company basis and no issues will be considered routine. Each issue will be considered in the context of the company under review and subject to a rigorous analysis of the economic impact an issue may have on the long-term shareholder value.

The CRPTF also actively engages companies on issues of concern in an effort to increase shareholder value. When appropriate, the CRPTF will itself sponsor shareholder resolutions. These proxy voting policies provide guidance for these activities as well.



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State of Connecticut Retirement Plans & Trust Funds

II. THE BOARD OF DIRECTORS

Electing the board of directors is the most important stock ownership right that shareholders can exercise. By electing directors with views similar to their own, shareholders can help to define performance standards against which management can be held accountable.

The CRPTF believes that it is very important that a majority or more of the board be independent and that it is essential that at least a majority of board members be independent of management and that all members of key board committees - nominating, compensation, and audit - be independent. For these purposes the CRPTF defines independent as:

An independent director is someone whose only nontrivial professional, familial or financial connection to the corporation, its chairman, CEO or any other executive officer is his or her directorship¹⁰

A director will NOT be considered independent under the following conditions:

- The director is employed by the company or one of its affiliates;
- The Board has determined by attestation that the director is not independent;
- The director is a former CEO of the company (except if served on an interim emergency basis);
- The director is a former CEO of an acquired company within the past five years;
- The director is a former significant executive¹¹ of the company, an affiliate or an acquired firm within the past five years;
- The director is a relative¹² of a current significant executive² level employee of the company or its affiliates;
- The director is a relative³ of an individual who was a significant executive² within the past five years of the company or its affiliate;
- The director currently provides (or a relative³ provides) professional services directly to the company, to an affiliate of the company or an individual officer of the company or one of its affiliates;
- The director is employed by (or a relative³ is employed by) a significant customer or supplier; The director has (or a relative³ has) any transactional relationship with the company or its affiliates;
- The director has any material financial tie or other related party transactional relationship to the company.

¹⁰ Council of Institutional Investors (CII).

¹¹ Executives (officers subject to Section 16 of the Securities and Exchange Act of 1934) follows the Institutional Shareholder Services (ISS) definition, which includes the chief executive officer, operating, financial, legal, technology, and accounting officers of a company (including the president, treasurer, secretary, controller, or any vice president in charge of a principal business unit, division, or policy function).

¹² "Relative" follows the NYSE definition of "immediate family members," which covers: spouses, parents, children, siblings, in-laws, and anyone sharing the director's home.



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A. Voting for Director Nominees in Uncontested Elections

Votes on director nominees are made on a CASE-BY-CASE basis, considering company performance and individual director performance.

The CRPTF will WITHHOLD votes from directors, individually or the entire board, for egregious actions or failure to replace management as appropriate.

The CRPTF will WITHHOLD votes from individual directors in some cases based on examination of the following factors:

- Nominee is both the CEO and chairman of the board of directors (except for certain situations as cited in Section II.D.);
- Nominee's attendance of meetings is less than 75 percent without valid reason;
- Non-independent nominee being a member of a key board committee (audit, nominating and compensation committee);
- Nominee is serving on an excessive number of other boards; for a CEO this would be more than 3 public company boards (two plus his or her own), and for a non-CEO this would be more than six public company boards;
- Nominee is serving on the board or in an executive position of another company where that company was involved in Chapter 7 bankruptcy, or where there were proven SEC violations, or a proven criminal offense related to the nominee;
- Poor performance by nominee on the board of another company, such as being a director of a company which filed for bankruptcy and where there are credible allegations of fraud;
- Interlocking directorships where the CRPTF Proxy Voting Advisor and/or other experts deem those relationships an impairment to independent judgment and action;
- Related party transactions where the CRPTF Proxy Voting Advisor and/or other experts deem those transactions to be more in the interest of the director nominee than the shareholders.

The CRPTF will WITHHOLD votes from the entire board of directors (excepting new nominees, who the CRPTF will evaluate based on the other criteria in this section) if:

- The company's poison pill has a dead-hand or modified dead-hand feature;
- The board adopts or renews a poison pill unless the poison pill is subject to shareholder approval;
- The board failed to act on a shareholder proposal that received approval by a majority of shares outstanding the previous year;
- The board failed to act on takeover offers where the majority of the shareholders tendered their shares;



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- The board failed to address an issue(s) that caused a 50% or greater withhold vote for any director in the previous director election;
- The board did not respond to a request from major institutional investors about significant policy issues that have material significance to shareholder value;
- Issues specific to key board committees (as outlined below) are not addressed by the board as a whole.

The CRPTF will WITHHOLD votes from non-independent directors when:

- The non-independent director serves on any of the three key committees: audit, compensation or nominating;
- The company lacks an audit, compensation or nominating committee, enabling the board to function as that committee;
- The full board is less than majority independent.

The CRPTF will WITHHOLD votes from members of key board committees in cases of poor performance of those committees of which the nominee is a member.

The CRPTF will WITHHOLD votes from members of the Nominating Committee if:

- The committee does not seek out candidates for the board from a diverse candidate pool, with particular attention to race and gender diversity, particularly when such diversity is underrepresented or nonexistent on the board;
- The committee does not consider input from shareholders in identifying candidates for the board.

The CRPTF will WITHHOLD votes from members of the Audit Committee if:

- The non-audit fees paid to the accounting firm performing the audit are greater than 10% of the total fees paid to the firm by the company (see also Section V.);
- The Audit Committee failed to respond to a material weakness identified in the Section 404 Sarbanes-Oxley Act disclosures;
- There are chronic internal control issues and an absence of established effective control mechanisms identified by the external auditors that are not being addressed in a timely manner;
- The committee has poor oversight of the company's procedures to assure independence of the auditors (see Section V. for further discussion).



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The CRPTF will WITHHOLD votes from the members of the Compensation Committee if:

- There is an apparent negative correlation between chief executive pay and company performance;
- The company fails to submit one-time transfers of stock options to a shareholder vote⁴;
- The company fails to fulfill the terms of a burn rate commitment it made to shareholders (the “burn rate” is the period of time it takes to issue all authorized stock options);
- The company has poor compensation practices. This will be evaluated on a CASE-BY-CASE basis based on analysis provided by proxy voting services that evaluate executive compensation and analysis provided by other investors and other consultants. The issues include, but are not limited to:
 - Employment contracts that produce significant compensation not tied to performance, which the CRPTF deems to be excessive (as based on analysis of its proxy voting service and other expert analysis); this would include contractual severance provisions that would reward poor performance;
 - Overly generous perks that the CRPTF deems to be excessive (based on analysis of its proxy voting service and other expert analysis);
 - Significant bonus payouts without justifiable performance linkage(based on analysis of the CRPTF’s proxy voting service and other expert analysis);
 - Performance metrics that do not adequately link executives’ pay to performance;
 - Performance metrics that are changed during the performance period in a way that misaligns pay and performance or that are not adjusted to reflect stock repurchase programs;
 - Options policies that provide for “reloading” of exercised stock options;
 - Supplemental Executive Retirement Plans (SERP) payouts which are deemed overly generous (based on analysis of the CRPTF’s proxy voting service and other expert analysis);
 - New hire packages to new CEOs which are deemed overly generous (based on analysis of the CRPTF’s proxy voting service and other expert analysis);
 - Internal pay disparity which is out of line with historic practices;
 - Lack of transparency in tax gross-ups for pay adjustments that recognize extraordinary expenses related to work assignments;
 - No “claw back” policy – requiring repayment of performance-based compensation when financial restatements shows that compensation was not earned;

⁴ See Appendix for discussion on Transferable Stock Options (TSOs)



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- Using a compensation consultant that is retained by the company to provide other significant services other than work performed for the compensation committee (see Section IX.A. for further discussion).

B. Voting for Director Nominees in Contested Elections

Competing slates will be evaluated based upon the personal qualifications of the candidates, the economic impact of the policies that they advance, and their expressed and demonstrated commitment to the interests of all shareholders and stakeholders (e.g. employees, customers, and communities in which a company resides), as well as using the criteria outlined in Section II.A. regarding uncontested elections.

Votes in a contested election of directors are evaluated on a CASE-BY-CASE basis, considering the following factors:

- Long-term financial performance of the company relative to its industry;
- Management's track record;
- Performance evaluation of any director standing for re-election;
- Background to the proxy contest;
- Qualifications of director nominees (both slates);
- Evaluation of what each slate is offering shareholders, as well as the likelihood that the proposed objectives and goals can be met;
- Stock ownership positions of individual directors;
- Impact on stakeholders such as the community, employees, customers, etc.

C. Board Diversity

The CRPTF supports company efforts to search for qualified female and minority candidates for nomination to the board of directors, under a policy of board inclusiveness, which includes a commitment to race and gender diversity in its corporate governance. The charter of the nominating committee should commit the company to seeking a diverse slate of candidates, including ethnic and gender diversity whenever possible.

Generally the CRPTF will vote FOR shareholder resolutions requesting reports on the company's efforts to diversify the board, unless:

- The board composition is reasonably inclusive in relation to companies of similar size and business; or
- The board already reports on its nominating procedures and diversity initiatives.



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The CRPTF will vote on a CASE-BY-CASE basis on shareholder resolutions asking the company to increase the representation of women and minorities on the board, taking into account:

- The degree of board diversity;
- Comparison with peer companies;
- Established processes for improving board diversity including existence of independent nominating committees and use of an outside search firm;
- History of Equal Employment Opportunity (EEO) violations.

D. Independent Director as Chairman of the Board

The CRPTF believes that the positions of chairman and CEO should be held by different persons, except in extraordinary circumstances. In those circumstances, there should be a lead independent director.

Generally, the CRPTF will WITHHOLD its vote for a director nominee who holds both positions.

Overall, the CRPTF will vote FOR shareholder resolutions that ask companies to require the position of chairman of the board be filled by an independent director, except in extraordinary circumstances that are explicitly spelled out.

E. Substantial Majority of Independent Directors

The CRPTF believes that a majority or more of every board of directors should be independent from management.

The CRPTF will vote FOR shareholder resolutions asking that a majority or more of directors be independent.

F. Shareholder Access to the Proxy

The CRPTF supports proxy ballot access for shareholders' nominees to the board, provided that shareholders holding a significant number (no less than 1%) of shares have shown support for each nominee.

Generally, the CRPTF will vote FOR shareholder resolutions asking companies to provide shareholders holding a significant number (no less than 1%) of shares with the ability to nominate director candidates to be included on management's proxy card.



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G. Majority Vote for Election of Directors

Generally, the CRPTF will vote FOR shareholder resolutions (including binding resolutions requesting that the board amend the company's bylaws) calling for directors to be elected with a majority of votes cast⁵ for electing directors, provided the proposal includes a carve-out for a plurality voting standard when there are more director nominees than board seats (e.g. contested elections)⁶.

H. Stock Ownership Requirements

The CRPTF will vote FOR shareholder resolutions that ask companies to require members of the board of directors to own some amount of stock of the companies on which they serve as board members. Exceptions should be made for clergy.

I. Annual Election of Directors

The CRPTF will vote FOR shareholder resolutions that ask companies to ensure all members of the board of directors be elected by shareholders every year.

J. Term of Office

The CRPTF will vote FOR shareholder resolutions proposing term limits or mandatory retirement age for members of the board of directors, provided that such proposals permit the board to waive this requirement on a CASE-BY-CASE basis.

K. Cumulative Voting

The CRPTF will vote FOR shareholder resolutions to allow cumulative voting. Under a cumulative voting scheme, the shareholder is permitted to have one vote per share for each director to be elected and shareholders are permitted to apportion those votes in any manner they wish among the director candidates.

L. Director and Officer Indemnification and Liability Protection

Management proposals typically seek shareholder approval to adopt an amendment to the company's charter to eliminate or limit the personal liability of directors to the company and its shareholders for monetary damages for fiduciary breaches arising from gross negligence.

⁵ This would replace the plurality vote standard which is an election where the candidate with the most votes is elected rather than requiring a majority of the votes for election – withhold votes do not count.

⁶ In contested elections a majority vote is not needed because these elections are competitive.



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Generally, the CRPTF will vote AGAINST management proposals to limit or eliminate entirely director and officer liability for:

- A breach of the duty of loyalty,
- Acts or omissions not in good faith or involving intentional misconduct or knowing violations of the law,
- Acts involving the unlawful purchases or redemptions of stock,
- The payment of unlawful dividends, or
- Use of the position as director for receipt of improper personal benefits.

M. Indemnification

Indemnification is the payment by a company of the expenses of directors who become involved in litigation as a result of their service to the company. Management proposals to indemnify a company's directors differ from those to eliminate or reduce their liability, because with indemnification, directors may still be liable for an act or omission, but the company will bear the expense. The CRPTF may support these management proposals when the company persuasively argues that such action is necessary to attract and retain directors, but will generally oppose indemnification when it is being proposed to insulate directors from actions they have already taken while serving on the board.

Generally, the CRPTF will vote AGAINST indemnification management proposals that would expand coverage to acts, such as negligence, that are more serious violations of fiduciary obligations than mere carelessness.

Generally, the CRPTF will vote FOR indemnification management proposals that cover the director's legal expenses, if the director is found to have acted in good faith.

III. COMPANY RESPONSIVENESS TO SHAREHOLDERS

Shareholders are the owners of the company and as such have an important right and duty to elect members of the board of directors. The members of the board of directors in turn oversee the company and act on behalf of shareholders to protect shareholders' interests. Shareholders often express their concerns through written communication, direct conversations, shareholder resolutions, and voting on proxy issues including voting for directors. Boards of directors need to be responsive to these shareholder communications.

A. Response to Majority Votes

When a shareholder resolution receives the support of a majority of the shareholders voting, the board of directors and management has an obligation to affirmatively consider the wishes of the shareholders.



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The CRPTF will vote FOR shareholder resolutions that request companies to adopt a policy that creates a mechanism and an obligation for the board of directors to take action on any shareholder resolution that receives an affirmative vote of a majority of those shares voted.

B. Communication with Shareholders

Members of the board of directors have a responsibility to listen to shareholders and to be responsive to their concerns.

The CRPTF will vote FOR shareholder resolutions that request companies to create a formal mechanism for shareholder communication with independent directors.

The CRPTF will vote FOR shareholder resolutions that request companies to require that all directors be present at the annual meeting of shareholders (unless there are extenuating circumstances) and that there is a period set aside at the annual meeting for the independent directors to answer questions from shareholders on issues of concern (management may be present).

IV. PROXY CONTEST DEFENSES

A. Poison Pills

“Shareholder rights plans,” typically known as poison pills, provide the target board with veto power over takeover bids and insulate management from the threat of a change in control. Because poison pills greatly alter the balance of power between shareholders and management, shareholders should be allowed to make their own evaluation of such plans.

The CRPTF will vote FOR shareholder resolutions that request companies to submit its poison pill for shareholder ratification.

The CRPTF will review on a CASE-BY-CASE basis shareholder resolutions that request companies to redeem a company's poison pill.

The CRPTF will review on a CASE-BY-CASE basis management proposals to ratify a poison pill.

B. Amend Bylaws without Shareholder Consent

The CRPTF will vote AGAINST management proposals giving the board exclusive authority to amend the bylaws.



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The CRPTF will vote AGAINST shareholder resolutions giving the board the ability to amend the bylaws without shareholder approval.

V. AUDITORS

The CRPTF believes that a company's auditors should be independent of outside influence and therefore should not perform non-audit-related consulting work. The audit committee should adopt and implement a formal policy on the independence of the auditors that is disclosed in the audit committee report of the proxy statement. Such policy should state that the auditors will not be considered independent if they provide significant non-audit services to the company apart from the audit. Services are considered significant if they are worth the lesser of \$50,000 or 1 percent of the audit firm's gross revenues for the most recent fiscal year. Under no circumstances should the amount of payment paid to the auditor for non-audit services (including audit related services) be larger than the payment for audit services. The audit committee should not indemnify the auditor. The appointment of the auditor should always be placed before shareholders for approval.

The CRPTF will vote AGAINST management proposals to ratify auditors if:

- An auditor has a financial interest in or association with the company, and is therefore not independent;
- There is reason to believe that the independent auditor has rendered an opinion which is inaccurate or non-indicative of the company's financial position;
- During the prior year, the fees paid to the audit firm for non-audit-related services was more than 10% of total fees paid to the firm by the company.

VI. ACQUISITIONS AND MERGERS

Votes on mergers and acquisitions and related issues are considered on a CASE-BY-CASE basis, with the primary concern being the best long-term economic interests of shareholders. In making this evaluation, the CRPTF will take into account at least the following:

- Anticipated financial and operating benefits;
- Offer price (cost vs. premium);
- Prospects of the combined companies;
- How the deal was negotiated;
- Fairness opinion (or the lack of one);
- Changes in corporate governance and its impact on shareholder rights;
- Impact on community stakeholders and workforce;
- Strategic rationale for the merger or acquisition;
- Analysis of whether there are any conflicts of interest;
- Analysis of corporate governance of the newly formed entity - both compared to the governance provisions of the companies prior to the merger or acquisition, and compared to the governance provisions of these proxy voting policies.



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A. Fair Price Provisions

The CRPTF will vote on a CASE-BY-CASE basis on proposals to adopt fair price provisions (provisions that stipulate that an acquirer must pay the same price to acquire all shares as it paid to acquire the control shares), evaluating factors such as the vote required to approve the proposed acquisition, the vote required to repeal the fair price provision, and the mechanism for determining the fair price.

B. Greenmail

Greenmail payments are targeted repurchases by management of company stock from individuals or groups seeking control of the company. Since only the hostile party receives payment, usually at a substantial premium over the market value of its shares, the practice discriminates against all other shareholders.

The CRPTF will vote FOR shareholder resolutions to adopt anti-greenmail charter or bylaw amendments or otherwise restrict a company's ability to make greenmail payments.

C. Stakeholder Provisions

The CRPTF will vote FOR shareholder resolutions that ask the board to consider non-shareholder constituencies including employees, customers, the community in which a company resides, and stakeholder or constituency issues of concern, when evaluating a merger or business combination.

VII. SHAREHOLDER RIGHTS

A. Confidential Voting

The CRPTF will vote FOR shareholder resolutions that request companies to adopt a policy allowing for confidential voting.

B. Shareholder Ability to Call Special Meetings

The CRPTF will vote FOR shareholder resolutions that request companies to adopt a policy allowing for shareholders' right to call special meetings within the parameters of corporate law of the state in which the company is incorporated.

C. Shareholder Ability to Act by Written Consent

The CRPTF will vote FOR shareholder resolutions that request companies to adopt a policy allowing for shareholders' ability to take action by written consent



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within the parameters of corporate law of the state in which the company is incorporated for the purpose of nominating candidates for the board of directors.

D. Equal Access

The CRPTF will vote FOR shareholder resolutions that request companies to give shareholders (or group of shareholders) owning a significant number of share (no less than 1%) access to management's proxy material for the purpose of nominating candidates to the board of directors.

E. Unequal Voting Rights

The CRPTF will vote FOR shareholder resolutions that request companies to provide one-share one-vote, and will vote AGAINST management proposals for dual class stock with different voting rights.

F. Supermajority Shareholder Vote Requirement to Amend the Charter or Bylaws

The CRPTF will vote AGAINST management proposals to adopt supermajority requirements for a shareholder vote to approve charter and bylaw amendments and mergers.

G. Reimbursement of Proxy Solicitation Expenses

Decisions to provide full reimbursement for dissidents waging a proxy contest will be made on a CASE-BY-CASE basis.

H. Shareholder Ability to Remove Directors

The CRPTF will vote FOR resolutions requiring shareholder resolutions that request companies to adopt a policy allowing shareholders the ability to remove directors with cause, including causes that do not rise to the level of legal malfeasance. Such causes include: not attending meetings, failure to carry out committee responsibilities, or actions which may be detrimental to the interests of shareholders.

I. Action to Fill Board Vacancies

The CRPTF will vote FOR proposals allowing that any board member named to fill a vacancy must be elected by shareholders at the next annual meeting.

The CRPTF will vote AGAINST proposals to allow management or the board to fill vacant board seats on an interim basis if the board fails to allow a shareholder vote for the interim members at the next annual meeting.



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J. Shareholder Ability to Alter the Size of the Board

The CRPTF will vote AGAINST proposals to allow management or the board to alter the size of the board without shareholder approval.

VIII. CAPITAL STRUCTURE

The management of a corporation's capital structure involves a number of important issues, including dividend policy, types of assets, opportunities for growth, ability to finance new projects internally, and the cost of obtaining additional capital. Many financing decisions have a significant impact on shareholder value, particularly when they involve the issuance of additional common stock, preferred stock, or debt.

The CRPTF will review these proposals for changes in capital structure on a CASE-BY-CASE basis.

In general the CRPTF will vote FOR proposals that are based on a solid business plan, while opposing proposals that:

- Diminish the rights of the current stockholders,
- Are intended to be used as a takeover defense, or
- Unduly dilute the economic or voting interests of current shareholders.

A. Common Stock Authorization

CRPTF supports management proposals requesting shareholder approval to increase authorized common stock when management provides persuasive justification for the increase.

CRPTF will evaluate on a CASE-BY-CASE basis proposals where the company intends to use the additional authorized stock to implement a poison pill or other takeover defense.

Generally, the CRPTF will review on a CASE-BY-CASE basis, proposals to increase the number of shares of common stock authorized for issue.

Generally the CRPTF will vote AGAINST proposed common stock authorizations that increase the existing authorization by more than 50 percent unless a clear need for the excess shares is presented by the company.

B. Blank Check Preferred Authorization

Preferred stock is an equity security, which has certain features similar to debt instruments, such as fixed dividend payments; seniority of claims compared to common



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stock; and, in most cases, no voting rights. The terms of blank check preferred stock give the board of directors the power to issue shares of preferred stock at its discretion—with voting rights, conversion, distribution and other rights to be determined by the board at time of issue. Blank check preferred stock can be used for sound corporate purposes, but could be used as a device to thwart hostile takeovers.

Generally the CRPTF will vote FOR management proposals to create blank check preferred stock in cases where the company expressly states that the stock will not be used as a takeover defense or carry superior voting rights.

Generally the CRPTF will vote on a CASE-BY-CASE basis on management proposals when the company indicates that such preferred stock may be used as a takeover defense.

C. Adjust Par Value of Common Stock

The CRPTF will vote FOR management resolutions to reduce the par value of common stock.

D. Preemptive Rights

Preemptive rights permit shareholders to share proportionately in any new issues of stock of the same class. These rights guarantee existing shareholders the first opportunity to purchase shares of new issues of stock in the same class as their own and in the same proportion. The absence of these rights could cause stockholders' interest in a company to be reduced by the sale of additional shares without their knowledge and at prices unfavorable to them. Preemptive rights, however, can make it difficult for corporations to issue large blocks of stock for general corporate purposes. Both corporations and shareholders benefit when corporations are able to arrange issues without preemptive rights that do not result in a substantial transfer of control.

Generally, the CRPTF will vote on a CASE-BY-CASE basis management proposals to create or abolish preemptive rights. In evaluating proposals on preemptive rights, the CRPTF will look at the size of a company and the characteristics of its shareholder base.

E. Debt Restructuring

The CRPTF will vote on a CASE-BY-CASE basis on management proposals to increase common and/or preferred shares and to issue shares as part of a debt



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restructuring plan. The CRPTF will consider the following issues:

- Dilution - How much will ownership interests of existing shareholders be reduced, and how extreme will dilution to any future earnings be?
- Change in control - Will the transaction result in a change in control of the company?
- Bankruptcy - Is the threat of bankruptcy, which would result in severe losses in shareholder value, the main factor driving the debt restructuring?

Generally, the CRPTF will vote FOR management proposals that facilitate debt restructuring unless there are clear signs of self-dealing or other abuses.

F. Dual-Class Stock

The CRPTF will vote FOR a one-share one-vote structure.

The CRPTF will vote AGAINST management proposals to create a new class of common stock with superior voting rights.

The CRPTF will vote AGAINST management proposals at companies with dual-class capital structures to increase the number of authorized shares of the class of stock that has superior voting rights.

G. Issue Stock for Use with Rights Plan

The CRPTF will vote AGAINST management proposals that increase authorized common stock for the explicit purpose of implementing a non-shareholder approved shareholder rights plan (poison pill).

H. Recapitalization

The CRPTF will vote on a CASE-BY-CASE basis on recapitalizations (reclassifications of securities), taking into account the following:

- More simplified capital structure,
- Enhanced liquidity,
- Fairness of conversion terms,
- Impact on voting power and dividends,
- Reasons for the reclassification,
- Conflicts of interest,
- Other alternatives considered.

I. Reverse Stock Splits



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A reverse stock split occurs when blocks of more than one share of stock are converted into one share.

The CRPTF will vote FOR management proposals to implement reverse stock split when the number of authorized shares will be proportionately reduced.

The CRPTF will vote on a CASE-BY-CASE basis on management proposals to implement reverse stock splits that do not proportionately reduce the number of shares authorized for issues as determined using a model developed by a proxy voting service.

J. Share Repurchase Programs

The CRPTF will vote FOR management proposals to institute open-market share repurchase plans in which all shareholders may participate on equal terms, provided that adjustments are made to executive compensation programs to reflect the reduced number of shares outstanding (e.g. calculations of earnings per share).

K. Stock Distributions: Splits and Dividends

The CRPTF will vote FOR management proposals to increase the common share authorization for a stock split or share dividend, provided that the increase in authorized shares would not result in an excessive number of shares available for issuance as determined using a model developed by a proxy voting service.

L. Tracking Stock

The CRPTF will vote on a CASE-BY-CASE basis on the creation of tracking stock, weighing the strategic value of the transaction against such factors as:

- Adverse governance changes,
- Excessive increases in authorized capital stock,
- Unfair method of distribution,
- Diminution of voting rights,
- Adverse conversion features,
- Negative impact on stock option plans,
- Alternatives such as spin-off.

IX. EXECUTIVE AND DIRECTOR COMPENSATION

A. CRPTF General Principles for Voting on Executive Compensation

Executive compensation is generally comprised of three basic components - salary, bonus and equity compensation. In addition, there are other forms of



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compensation, such as retirement benefits, severance benefits, basic employee benefits (such as health and life insurance), loans (and forgiveness of loans), payment of taxes on certain compensation, and “perks” including personal use of company facilities (such as company aircraft).

The CRPTF considers a good compensation policy as one that balances these different forms of compensation to provide incentives for continuous improvement and ties pay to performance. Developing measures of performance for the CEO and other executives is a key component of a compensation plan.

It is the role of the compensation committee to set the compensation for top management and approve compensation policy for the company as a whole. Shareholders look to the compensation committee to align management's interests with shareholder interest, while providing incentives for long-term performance.

Exorbitant pay, unwarranted severance packages, lack of internal pay equity, abuse of perquisites ("perks"), and corporate scandals, where executives have been highly paid while shareholders have lost billions of dollars, and employees have lost their jobs and much of their life savings, have shown that many compensation committee members have not been doing their jobs. These examples provide a reminder to all compensation committee members of the importance of their responsibility to align pay with performance, and to provide compensation incentives for management while protecting the financial interests of shareholders.

The compensation committee should commit to provide full descriptions of the qualitative and quantitative performance measures and benchmarks used to determine annual incentive compensation, including the weightings of each measure. At the beginning of the period during which an executive's performance is to be measured, the compensation committee should calculate and disclose the maximum compensation payable in the event that performance-related targets are met. At the end of the performance cycle, the compensation committee should disclose actual targets and details on the determination of final payouts.

The compensation committee should adopt and implement a formal policy on the independence of compensation consultants that is disclosed in the Compensation Discussion and Analysis (CD&A) of the proxy statement. Such policy should state that a compensation consultant will not be considered independent if the consultant firm provides significant services to the company apart from work performed for the compensation committee. Services are considered significant if they are worth the lesser of \$50,000 or 1 percent of the consultant firm's gross revenues for the most recent fiscal year. Under no circumstances should the amount of payment paid to a consultant be larger for management services than the payment for compensation committee services. The compensation committee



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should not indemnify the compensation consultant for work provide to the committee.

The CRPTF proxy voting policies are based on pay for long-term sustained performance, and the responsibility of the compensation committee to make this happen.

B. Equity Compensation

The CRPTF supports compensating executives at a reasonable rate, and believes that executive compensation should be strongly correlated to the long-term performance of the company.

Stock option grants and other forms of compensation should be performance-based with an objective of improving shareholder value and maintaining that value over the long term. Well-designed stock option plans align the interests of executives and shareholders by providing that executives benefit when stock prices rise as the company - and shareholders - prosper over the long-term.

The CRPTF will vote on a CASE-BY-CASE basis on proposals for equity-based compensation plans.

The CRPTF will vote FOR proposals for equity compensation plans that provide challenging performance objectives and serve to motivate executives to deliver excellent long-term performance, and vote AGAINST plans that permit reloading of exercised stock options and apparent unreasonable benefits to executives that are not available to any other employees.

The CRPTF will vote on a CASE-BY-CASE basis for management proposals for equity-based compensation plans that link executive compensation to corporate responsibility, such as corporate downsizing, customer or employee satisfaction, community involvement, human rights, environment performance, predatory lending, and executive/employee pay disparities. The CRPTF considers many of these corporate responsibility issues as key business issues linked directly to long-term shareholder return, and will evaluate them accordingly.

The CRPTF will vote AGAINST proposals for equity-based compensation plans if any of the following factors apply:

- The total cost of the company's equity-based compensation plans is unreasonable, based on a model developed by a proxy voting service;
- The plan expressly permits the repricing of stock options without prior shareholder approval;
- The plan expressly permits the reloading of stock options;
- There is a disconnect between CEO pay and the company's performance;
- The company's three-year burn rate exceeds 3% or the industry average;



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- The plan is a vehicle for poor pay practices.

C. Director Retirement Plans

The CRPTF will vote AGAINST management proposals for retirement plans for non-employee directors.

D. Employee Stock Ownership Plans (ESOPs)

The CRPTF will vote FOR proposals to implement an ESOP or increase authorized shares for existing ESOPs, unless the number of shares allocated to the ESOP is excessive (more than five percent of outstanding shares).

E. Incentive Bonus Plans and Tax Deductibility Proposals – OBRA (Omnibus Budget Reconciliation Act of 1990) Related Compensation Proposals

The CRPTF will vote FOR management proposals that amend shareholder-approved compensation plans to include administrative features or place a cap on the annual grants that any one participant may receive to comply with the provisions of Section 162(m) of OBRA.

The CRPTF will vote FOR management proposals to add performance goals to existing compensation plans to comply with the provisions of Section 162(m) unless they are clearly inappropriate.

The CRPTF will vote on a CASE-BY-CASE basis on management proposals to amend to existing plans to increase shares reserved and to qualify for favorable tax treatment under the provisions of Section 162(m), as long as the plan does not exceed the allowable cap and the plan does not violate any of the supplemental policies.

Generally, the CRPTF will vote FOR cash or cash and stock bonus plans that are submitted to shareholders for the purpose of exempting compensation from taxes under the provisions of Section 162(m), if no increase in shares is requested.

F. Option Exchange Programs/Repricing Options

The CRPTF will vote on a CASE-BY-CASE basis on management proposals seeking approval to exchange/reprice options, taking into consideration:

- Historic trading patterns;
- Rationale for the re-pricing;
- Value-for-value exchange;
- Treatment of surrendered options;



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- Option vesting;
- Term of the option;
- Exercise price;
- Participation;
- If the surrendered options are added back to the equity plans for re-issuance, the CRPTF will also take into consideration the company's three-year burn rate.

X. SHAREHOLDER RESOLUTIONS ON COMPENSATION

A. Option Expensing

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to expense stock options, unless the company has already publicly committed to expensing options by a specific date.

B. Option Repricing

The CRPTF will vote FOR shareholder resolutions that require companies to put option repricing to shareholder vote.

C. Shareholder Resolutions to Limit Executive and Director Pay

Shareholder resolutions to limit executive and director pay need to be evaluated on a CASE-BY-CASE basis.

Generally, the CRPTF will vote FOR shareholder proposals that seek additional disclosure of a significant executive and director pay information.

Generally, the CRPTF will vote FOR shareholder proposals that seek to eliminate outside directors' retirement benefits.

Generally, the CRPTF will vote FOR shareholder proposals that seek to provide for indexed and/or premium priced options.

Generally, the CRPTF will vote FOR shareholder proposals that seek non-discrimination in retirement benefits (e.g. retirement benefits and pension plans that are different based on age of employee such as cash balance plans).

Generally, the CRPTF will vote FOR shareholder resolutions that request that earnings from a company's pension plan not be included in company earnings for the purpose of evaluating whether an executive met performance targets in their compensation agreement.



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The CRPTF will vote FOR shareholder resolutions that request companies to adopt a policy under which there is an annual non-binding advisory shareholder vote on the company's compensation report.

The CRPTF will vote FOR shareholder resolutions that request companies to require executives to repay long-term incentive compensation or other performance-based compensation to the company in the event a company restates its financial statements for a previous reporting period and such compensation - as recalculated - is found not to have been earned.

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to advocate the use of performance-based awards like indexed, premium-priced, and performance-vested options or performance-based shares.

D. Severance Agreements for Executives/Golden Parachutes

The CRPTF will vote FOR shareholder resolutions that request companies to require golden parachutes or executive severance agreements to be submitted for shareholder ratification, unless the proposal requires shareholder approval prior to entering into employment contracts, or the proposal limits flexibility necessary for recruiting executives.

The CRPTF will vote on a CASE-BY-CASE basis on proposals to ratify or cancel golden parachutes. An acceptable parachute should include, but is not limited to, the following:

- The triggering mechanism should be beyond the control of management;
- The amount should not exceed three times the base amount defined as the average annual taxable W-2 compensation during the five years prior to the year in which the change of control occurs;
- Change-in-control payments should be double-triggered, i.e., 1) after a change in control has taken place, and 2) termination of the executive as a result of the change in control. Change in control is defined as a change in the company ownership structure.

E. Supplemental Executive Retirement Plans (SERPs)

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to allow for a shareholder vote to approve SERP agreements, unless the company's executive pension plans do not contain excessive benefits (based on an analysis by the CRPTF's proxy voting service and other expert analysis).

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to call for limitations of annual retirement benefits to a maximum of earned annual salary and bonus.



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F. Director Compensation

The CRPTF will vote on a CASE-BY-CASE basis on compensation plans for non-employee directors.

The CRPTF will vote FOR a director compensation plan if ALL of the following qualitative factors are met and disclosed in the proxy statement:

- Director stock ownership policies that require payment of a minimum of 50% of annual director compensation in equity and encourage directors to hold their equity interests while serving on the board.
- A vesting schedule or mandatory holding/deferral period (a minimum vesting of three years for stock options or restricted stock or deferred stock payable at the end of a three-year deferral period);
- Mix between cash and equity;
- No retirement benefits or perquisites provided to non-employee directors;
- Detailed disclosure provided on cash and equity compensation delivered to each non-employee director for the most recent fiscal year, including annual retainer, board meeting fees, committee retainer, committee-meeting fees, and equity grants.

G. Shareholder Resolutions on Compensation Consultant Independence

The CRPTF will vote FOR shareholder resolutions that request companies to include in their corporate governance guidelines that any compensation consultant employed by the compensation committee be independent of management and that such consultant should not provide significant consulting services to the management of the company (see Section IX.A. for further discussion).

XI. STATE AND COUNTRY OF INCORPORATION

A. Voting on State Takeover Statutes

The CRPTF will vote on a CASE-BY-CASE basis on proposals to opt in or out of state takeover statutes (including control share acquisition statutes, control share cash-out statutes, freeze out provisions, fair price provisions, stakeholder laws, poison pill endorsements, severance pay and labor contract provisions, anti-greenmail provisions, and disgorgement provisions).

The CRPTF generally supports opting into stakeholder protection statutes if they provide comprehensive protections for employees and community stakeholders. The CRPTF would be less supportive of takeover statutes that only serve to protect incumbent management from accountability to shareholders, and which negatively influence shareholder value.



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B. Voting on Reincorporation Proposals

The CRPTF will vote on a CASE-BY-CASE basis on proposals to change a company's state of incorporation, taking into consideration both financial and corporate governance concerns, including the reasons for reincorporating, a comparison of the governance provisions, comparative economic benefits, and a comparison of the jurisdictional laws.

The CRPTF will vote FOR reincorporation when the economic factors outweigh any neutral or negative governance changes.

C. Off-Shore Reincorporation

Proposals to reincorporate outside of the United States and management proposals to expatriated companies to reincorporate back in the US will be examined closely.

The CRPTF will vote AGAINST any reincorporation management proposals that are found to reduce the rights of shareholders.

The CRPTF will vote FOR shareholder resolutions that request an expatriated company to study reincorporation back in the US and report back to shareholders.

The CRPTF will vote FOR shareholder resolutions to reincorporate back in the US, if those proposals are found to increase the rights of shareholders, and/or have financial benefits to shareholders.

XII. SHAREHOLDER RESOLUTIONS ON EQUAL EMPLOYMENT OPPORTUNITY AND OTHER WORKPLACE PRACTICE REPORTING ISSUES

A. Equal Employment Opportunity

These proposals generally request that a company establish a policy of reporting to shareholders its progress with equal opportunity and affirmative action programs. The costs of violating federal laws that prohibit discrimination by corporations are high and can affect corporate earnings.

The CRPTF will vote FOR shareholder resolutions that request companies to take action on equal employment opportunity and anti-discrimination.

The CRPTF will vote FOR shareholder resolutions calling for legal and regulatory compliance and public reporting related to non-discrimination,



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affirmative action, workplace health and safety, environmental issues, and labor policies and practices that affect long-term corporate performance.

The CRPTF will vote FOR shareholder resolutions that request companies to take action calling for non-discrimination in salary, wages and all benefits.

The CRPTF will vote FOR shareholder resolutions that request companies to ask for disclosure of statistical information and policy statements regarding non-discriminatory hiring, performance evaluation and advancement, and workforce composition.

The CRPTF will vote FOR shareholder resolutions that request companies to disclose the EEO-1 consolidated data report that is filed with the Equal Opportunity Commission (EEOC).

The CRPTF will vote FOR shareholder resolutions that request companies to create policy statements regarding non-discriminatory hiring, performance evaluations, advancement and affirmative action.

The CRPTF will vote FOR shareholder resolutions that request companies to add the terms "sexual orientation," "gender identity," and/or "gender expression" to written non-discrimination policies.

B. Non-Discrimination in Retirement Benefits

Many companies are changing their retirement benefits, including moving to cash balance and defined contribution pension plans. There is the potential for some employees to benefit more than others due to these changes.

The CRPTF will vote FOR shareholder resolutions that request companies to ensure non-discrimination in retirement benefits.

C. Workplace Diversity

i) Glass Ceiling

Generally, the CRPTF will vote FOR reports outlining the company's progress towards race and gender inclusiveness in management and the board of directors.

ii) Sexual Orientation

The CRPTF will vote FOR shareholder resolutions that request companies to amend EEO statements in order to prohibit discrimination based on sexual orientation.



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D. International Labor Standards/Human Rights

i) Contract Supplier Standards / International Codes of Conduct / Vendor Standards

This section addresses shareholder resolutions that call for compliance with governmental mandates and corporate policies regarding nondiscrimination, affirmative action, right to affiliate or organize, work place safety and health, and other basic labor and human rights protections, particularly in relation to the use of international suppliers. The global labor standards and human rights resolutions call for global companies to implement comprehensive codes of conduct, and to abide by conventions of the International Labor Organization (ILO) on workplace human rights, in order to assure that its products are made under humane conditions and workers are paid at a minimum the legal minimum wage. The CRPTF proxy voting policies support these resolutions on the grounds that these standards are good business practices that protect shareholder value by improving worker productivity, reducing turnover and time lost due to injury, etc, as well as avoiding negative publicity and a loss of consumer confidence.

Generally, the CRPTF will vote FOR resolutions that request companies to ensure that its products are not made in “sweatshops.”

Generally, the CRPTF will vote FOR resolutions that request companies to help eradicate forced labor and child labor, promote the rights of workers to form and join labor unions and to bargain collectively, seek to ensure that all workers are paid a living wage, and require that company contractors submit to independent monitoring of their factories.

Generally, the CRPTF will vote FOR resolutions that request companies to adopt labor standards – a “Code of Conduct” - for foreign and domestic suppliers and licensees, and a policy that the company will not do business with suppliers that manufacture products for sale using forced labor, child labor, or that fail to comply with applicable laws protecting employees' wages and working conditions including all applicable standards and laws protecting employees' wages, benefits, working conditions, freedom of association (right to organize), and other rights.

Generally, the CRPTF will vote FOR resolutions that request companies to publish their “Code of Conduct.”

Generally, the CRPTF will vote FOR resolutions that request companies to publish a report summarizing the company's current practices for enforcement of its “Code of Conduct.”



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Generally, the CRPTF will vote FOR resolutions that request companies to engage independent monitoring programs by non-governmental organizations to monitor suppliers and licensee compliance with a company's "Code of Conduct."

Generally, the CRPTF will vote FOR resolutions that request companies to create incentives to encourage suppliers to raise standards rather than terminate contracts.

Generally, the CRPTF will vote FOR resolutions that request companies to implement policies for ongoing wage adjustments, ensuring adequate purchasing power and a sustainable living wage for employees of foreign suppliers and licensees.

Generally, the CRPTF will vote FOR resolutions that request companies to improve transparency of their contract supplier reviews.

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to outline vendor standards.

ii) Corporate Conduct and Human Rights

The CRPTF will generally support proposals that call for the adoption and/or enforcement of principles or codes relating to countries in which there are systematic violations of human rights, such as: the use of slave, child, or prison labor; a government that is illegitimate; or where there is a call by human rights advocates, pro-democracy organizations, or legitimately-elected representatives for economic sanctions.

Generally, the CRPTF will vote FOR resolutions that request companies to support Principles or Codes of Conduct relating to the company investment in countries with patterns of workplace and/or human rights abuses.

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to adopt policies that reflect the provisions of the General Statutes of Connecticut.

E. Equal Credit and Insurance Opportunity

Access to capital and insurance is essential to participating in our society. The Equal Credit Opportunity Act prohibits lenders from discriminating with regard to race, religion, national origin, sex, age and the like. "Redlining," the systematic denial of services in an area based on its economic or ethnic profile, has a similar negative impact on denying participation in our society.



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The CRPTF will vote FOR shareholder resolutions that request companies to provide reports on lending practices in low/moderate income or minority areas and on steps to remedy mortgage lending discrimination.

The CRPTF will vote FOR shareholder resolutions that request companies to develop fair "lending policies" that would assure access to credit for major disadvantaged groups and require annual reports to shareholders on their implementation.

The CRPTF will vote FOR shareholder resolutions that request insurance companies and banks to appraise their practices and develop policies to avoid redlining.

XIII. SHAREHOLDER RESOLUTIONS ON CORPORATE CITIZENSHIP, WORKPLACE, AND ENVIRONMENTAL ISSUES

In general, the CRPTF will vote FOR shareholder resolutions on responsible business practices that have an impact on the community, environment, and workforce, all of which the company relies on to sustain its business over the long-term.

In most cases, the CRPTF will vote FOR shareholder resolutions that request companies to promote additional information that is not available elsewhere and that is not proprietary, particularly when it appears companies have not adequately addressed shareholders' corporate citizen, workforce, and environmental concerns.

In determining the CRPTF's vote on shareholder resolutions that address responsible business proposals, the CRPTF will analyze the following factors:

- Whether adoption of the resolution would have a positive or negative impact on the company's long-term share value;
- The degree to which the company's stated position on the issues could affect its reputation or sales, or leave it vulnerable to boycott or selective purchasing;
- Whether the company has already responded in some appropriate manner to the request embodied in a proposal;
- Whether the company's analysis and voting recommendation to shareholders is persuasive;
- What other companies have done in response to the issue;
- Whether the proposal itself is well framed and reasonable;
- Whether implementation of the resolution would achieve the objectives sought in the proposal; and
- Whether the subject of the resolution is best left to the discretion of the board.

In general, the CRPTF will vote FOR shareholder resolutions that request companies to furnish information helpful to shareholders in evaluating the company's operations. In



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order to be able to monitor their investments, shareholders often need information best provided by the company in which they have invested. Requests to report such information merit support.

The CRPTF will evaluate on a CASE-BY-CASE basis proposals that request the company to cease certain actions that the proponent believes is harmful to society or some segment of society, with special attention to the company's legal and ethical obligations, its ability to remain profitable, and potential negative publicity if the company fails to honor the request.

A. Principles for Responsible Investment

The Principles for Responsible Investment (PRI)¹³ provide a framework to give consideration to environmental, social and corporate governance (ESG) issues that can affect the performance of investment portfolios. The Principles were developed by a number of international institutional investors, including the Connecticut State Treasurer's Office. The United Nations Environmental Program Financial Initiative (UNEP-FI) coordinated the effort. The Principles were launched by this group of international investors in April 2006, at the New York Stock Exchange with U.N. Secretary General Kofi Annan. The principles are consistent with the discussion immediately above.

Principle # 2 specifically states that, "We will be active owners and incorporate ESG issues into our ownership policies and practices." These proxy voting policies are an element of the CRPTF's active ownership policies, and give guidance as to how the CRPTF incorporates these issues into its policies and practices.

B. MacBride Principles

The MacBride Principles request companies operating in Northern Ireland to support the equal employment opportunity policies that apply in facilities they operate domestically. State of Connecticut General Statutes requires divestment from companies that do not implement the MacBride Principles (CGS 3-13h). The MacBride Principles were established to address the sectarian hiring problems between Protestant and Catholics in Northern Ireland. Because Connecticut Statutes prohibit the CRPTF from holding stocks in companies doing business in Northern Ireland that have not implemented the MacBride principles, the CRPTF does not hold stocks in companies to which resolutions are submitted, and therefore does not vote on these resolutions.

⁷ The principles can be found at www.unpri.org as well as on the Connecticut State Treasurer's website.



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The CRPTF will request their adoption and support MacBride resolutions by writing letters to these companies urging them to implement the MacBride principles and act as good corporate citizens as well as be eligible for investment by the CRPTF.

C. Climate Change, Energy, and Environment

i) Global Warming, Climate Change, and Sustainability

According to a report by CERES, a national network of investors, environmental organizations and other public interest groups working with companies and investors to address sustainability challenges, *Value at Risk: Climate Change and the Future of Governance*, "Climate change is rapidly becoming one of the core challenges of the 21st century for corporate directors and institutional investors." There are direct economic and financial risks to companies from physical damage due to extreme weather patterns due to climate change. Economic and financial risks can also occur when companies are not prepared for complying with new regulators curbing carbon emissions.

The CRPTF will vote FOR shareholder resolutions that request companies to report on greenhouse gas emissions from company operation and of the company's products in relation to their impact on global climate change.

The CRPTF will vote FOR shareholder resolutions that request companies to develop a standard reporting format and data baseline so that data from the company can be accurately compared to data from other companies, and compared to recognized measurement standards.

The CRPTF will vote FOR shareholder resolutions that request companies to provide a report that evaluates the risks that the company may be facing due to climate change.

The CRPTF will vote FOR shareholder resolutions that request companies to provide a "sustainability report," such as the Global Reporting Initiative, that describes how the company plans to address issues of climate change and other long-term social, economic and environmental issues in order to maintain the long-term financial health of the company in a changing environment.

ii) Kyoto Protocol Compliance

The Kyoto Protocol is an international treaty which sets limits on greenhouse gas emissions.



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Generally, the CRPTF will vote FOR shareholder resolutions that request that companies to outline their preparations to comply with standards established by Kyoto Protocol in countries in which Kyoto applies.

iii) CERES Principles

The CRPTF will vote FOR shareholder resolutions requesting companies to adopt the CERES Principles, taking into account:

- The company's current environmental disclosure beyond legal requirements, including environmental health and safety (EHS) audits and reports that may duplicate CERES;
- The company's environmental performance record, including violations of federal and state regulations, level of toxic emissions, and accidental spills;
- Environmentally conscious practices of peer companies, including endorsement of CERES;
- Costs to the company of membership and implementation.

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to sign onto the Global Compact, Equator Principles, and other similarly broadly recognized commitments to sustainability principals.

The CRPTF will vote FOR shareholder resolutions that request companies to address matters of specific ecological impact, e.g. sustainable use of natural resources, waste reduction, wiser use of energy, reduction of health and safety risks, marketing of safer products and services, reduction or elimination of chlorine in production processes, responsible environmental restoration, etc.

The CRPTF will vote FOR shareholder resolutions that request companies to report on, assess the impact of, and curtail environmental hazards to communities that result from their activities.

The CRPTF will vote FOR shareholder resolutions that request oil companies not to explore and oil and gas extraction in areas where there is a significant danger of permanent damage to the environment.

iv) Arctic National Wildlife Refuge

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to provide reports outlining how it would prevent potential environmental damages from drilling in the Arctic National Wildlife Refuge (ANWR).



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v) Environmental-Economic Risk Report

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to perform an economic risk assessment of environmental performance, unless the company has already publicly demonstrated compliance with the spirit of the resolution by including a report of such risk assessment in a sustainability report, corporate responsibility report, or similar report.

vi) Environmental Reports

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to provide reports disclosing the company's environmental policies, unless the company already has environmental management systems that are well-documented and available to the public.

vii) Nuclear Safety

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to provide reports on risks and/or benefits associated with their nuclear reactor designs and/or the production and interim storage of irradiated fuel rods.

viii) Operations in Protected Areas

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to provide reports outlining potential environmental damage from operations in protected regions, including wildlife refuges.

ix) Renewable Energy

Generally, the CRPTF will vote FOR requests for reports on the feasibility of developing renewable energy sources, unless the report is duplicative of existing disclosure or irrelevant to the company's line of business.

x) Environmental Justice

The CRPTF will generally support proposals asking companies to report on whether environmental and health risks posed by their activities fall disproportionately on any one group or groups, and to take action to reduce those risks at reasonable costs to the company.

The CRPTF will generally support proposals asking companies when siting and addressing issues related to facilities which may have impact on local environment and to respect the rights of local communities to participate in decisions affecting their local environment.



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D. Special Policy Review and Shareholder Advisory Committees

The CRPTF will vote FOR shareholder resolutions that request companies to support advisory committees when they appear to offer a potentially effective method for enhancing shareholder value.

E. Drug Reimportation

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to provide reports on the financial and legal impact of their policies regarding prescription drug reimportation, unless such information is already publicly disclosed.

Generally, the CRPTF will vote AGAINST shareholder resolutions requesting that companies adopt specific policies to encourage or constrain prescription drug reimportation.

F. HIV/AIDS, Malaria, Tuberculosis

The CRPTF will vote FOR shareholder resolutions to request companies to establish, implement, and report on a standard of response to the HIV/AIDS, tuberculosis, and malaria health pandemic in Africa and other developing countries, unless the company doesn't have significant operations in these markets or has adopted policies and/or procedures to address these issues comparable to those of industry peers.

G. Predatory Lending

The CRPTF will vote FOR shareholder resolutions that request companies to adopt policies that preclude predatory lending practices.

The CRPTF will vote on a CASE-BY-CASE basis on requests for reports on the company's procedures for preventing predatory lending, including the establishment of a board committee for oversight, taking into account:

- Whether the company has adequately disclosed mechanisms in place to prevent abusive lending practices;
- Whether the company has adequately disclosed the financial risks of its subprime business;
- Whether the company has been subject to violations of lending laws or serious lending controversies;
- Peer companies' policies to prevent abusive lending practices.



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H. Toxic Chemicals

Generally, the CRPTF will vote FOR shareholder resolutions that request companies disclose its policies related to toxic chemicals.

The CRPTF will vote on a CASE-BY-CASE basis on resolutions requesting that companies evaluate and disclose the potential financial and legal risks associated with utilizing certain chemicals.

XIV. SHAREHOLDER RESOLUTIONS ON GENERAL CORPORATE ISSUES

A. Charitable/Political Contributions

The CRPTF will vote AGAINST shareholder resolutions that request companies not to make charitable contributions.

Shareholders concerned about the influence of corporate funds on the political process have called attention to the use of: "soft money," (i.e., funds that are not given directly to candidates, but to political parties for "party-building" activities); "527" committees¹⁴; and industry political action committees. Resolutions typically call for greater disclosure of corporate campaign financing, policies to protect employees from unwanted political solicitations, and policies to protect the reputation of the company.

The CRPTF will vote AGAINST shareholder resolutions that bar companies from making political contributions. Businesses are affected by legislation at the federal, state, and local level and barring contributions can put the company at a competitive disadvantage.

The CRPTF will generally support shareholder resolutions that request companies to provide greater disclosure of corporate campaign financing.

B. Link Executive Compensation to Corporate Responsibility

The CRPTF will vote on a on a CASE-BY-CASE basis on equity-based compensation plans that link executive compensation to corporate responsibility. Factors weighed include corporate downsizing, customer or employee satisfaction, community involvement, human rights, environmental performance, predatory lending, and executive/employee pay disparities. Such resolutions will be evaluated in the context of:

¹⁴ A 527 is a non-profit organization formed under Section 527 of the Internal Revenue Code



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- The degree to which the issue can be linked to executive compensation and the long term financial performance of the company;
- The degree that social performance is already included in the company's pay structure and disclosed;
- Violations or complaints filed against the company relating to the particular social performance measure;
- Current company pay levels.

C. Outsourcing

The CRPTF will vote on a CASE-BY-CASE basis on proposals calling for companies to report on the risks associated with outsourcing.

D. Military Sales

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to report on foreign military sales and economic conversion of facilities, as long as such resolutions permit non-disclosure of confidential and proprietary information.

E. Operations in Nations Sponsoring Terrorism

The CRPTF will vote on a CASE-BY-CASE basis on shareholder resolutions that require the establishment of a board committee to review and report on the company's financial and reputational risks from its operations in a terrorism-sponsoring state.

F. Business Strategy

Shareholders have introduced resolutions asking boards of directors to examine the impact of particular business strategies on long-term corporate value in light of changing market conditions that could affect those particular business strategies, and to report back to shareholders. The CRPTF generally supports enhanced disclosure to shareholders on how the company addresses issues that may present significant risk to long-term corporate value.



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APPENDIX

Transferable Stock Options (TSOs)

Academic literature by Kevin Murphy and Brian Hall (“Option Value does not Equal Option Cost” and “The Trouble with Stock Options”) shows that employees place significant discounts on the value of their stock option grants. The mis-alignment results in an excess grant of stock options and transfer of shareholder equity at the expense of stockholders.

Transferable stock options (TSOs) may potentially bridge the gap. TSOs are stock options that the option holder can sell, generally at a discount to their fair value calculated using an appropriate financial model, to a third party financial institution in exchange for cash or stock. Employees can readily see that value exists in their unvested stock options, even the underwater ones.

Microsoft was the first company that conducted a one-time broad-based TSO program with the assistance of JP Morgan Chase in late 2003. The company offered to buy packages of options previously granted to employees. Those packages were then re-purchased by JP Morgan Chase, after first removing forfeiture and other provisions unique to employee options. No known companies have offered an ongoing TSO program.

There are two types of TSOs programs: one-time transfer and an ongoing transfer. For one-time transfer programs, ISS will recommend withholding votes from compensation committee members if they fail to submit one-time transfer for shareholder approval. One-time transfer will be evaluated on a CASE-BY-CASE basis giving consideration to the following features:

- Executive officers and non-employee directors should be excluded from participating;
- Stock options must be purchased by a third-party financial institution at a discount to their fair value using Black-Scholes Option Pricing Model or Binomial Option Valuation or other appropriate financial models;
- A two-year minimum holding period for sale proceeds (cash or stock) for all participants.

Additionally, management should provide a clear explanation of why options are being transferred and whether the events leading up to the decline in stock price were beyond management's control. A review of the company's historic stock price volatility should indicate if the options are likely to be back “in-the-money” over the near term.

For an ongoing TSO program, TSOs will be one of the award types under a stock plan. The ongoing TSO program, structure and mechanics must be disclosed to shareholders. The forfeiture rate is set to zero for the TSO portion of shares under the Binomial Valuation Model. Amendments to existing plans that allow for introduction of



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transferability of stock options should make clear that only options granted post-amendment shall be transferable.

**APPENDIX B
SECTION II**

**State of Connecticut
Office of the Treasurer
Global Proxy Voting Policies**

(Adopted May 10, 2000)



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State of Connecticut Office of the Treasurer Global Proxy Voting Policies (Adopted May 10, 2000)

The Connecticut Global Proxy Voting Policies conforms to common law fiduciary standards including Connecticut statutes pertinent to fiduciary conduct such as the Uniform Prudent Investor Act.

Exercising proxy-voting rights is a required duty of the Treasurer and hence the Connecticut Retirement Plans and Trust Funds (CRPTF) by virtue of the rights and responsibilities related to the Treasurer's role as principal fiduciary. Plan fiduciaries have a responsibility to vote proxies on issues that may affect the value of the shares held in a portfolio since proxies are considered plan assets and have economic value.¹⁵

Proxy voting rights must be exercised in accordance with the fiduciary duties of loyalty and prudence. The duty of loyalty requires that the fiduciary exercise proxy voting for the long-term economic benefit of plan participants and beneficiaries. The duty of prudence includes considerations based on financial criteria and that a clear process exists for evaluating proxy issues. In addition to prudence, Section 3-13a of the Connecticut General Statutes directs the Treasurer to consider the social, economic and environmental implications of all investments. The law also directs the Treasurer to consider the implications of particular investments on foreign policies and the national interests of the United States.

The voting policies contained herein are carefully crafted to meet those requirements by promoting long-term shareholder value, emphasizing the "economic best interests" of plan participants and beneficiaries. The voting fiduciary will assess the short-term and long-term impact of a vote, and will promote a position that is consistent with the long-term economic best interests of plan members. In accordance with state law, the policies take into consideration actions, which promote good corporate citizenship through the proxy process. Many companies realize that it is in their financial interests to pursue business practices that are ethically, environmentally, legally and socially responsible.

The proxy voting guidelines address a broad range of issues, including board size and composition, executive compensation, and mergers and acquisitions—significant voting items that affect long-term shareholder value. In addition, these guidelines address

¹⁵ Many public sector pension plans, regulatory bodies, and professional associations have adopted the views of the U.S. Department of Labor on fiduciary duties related to proxy voting. The Department of Labor's Pension and Welfare Benefits Administration has stated in opinion letters and an interpretative bulletin that the voting rights related to shares of stock held by pension plans are plan assets. Therefore, according to the Department, "the fiduciary act of managing plan assets which are shares of corporate stock would include the voting of proxies appurtenant to those shares of stock." Sources include: the Department of Labor Opinion Letter (Feb.23, 1988), reprinted in 15 Pens. Rep. (BNA), 391, the Department of Labor Opinion Letter (Jan.23, 1990), reprinted in 17 Pens. Rep. (BNA), 244 and the Interpretative Bulletin, 94-2.



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broader issues of corporate citizenship that can have an impact on corporate performance and important stakeholder interests, including:

- corporate policies that affect the environment including adoption of the CERES Principles;
- corporate policies that affect job security and wage levels;
- corporate responsibility to employees and communities, including the implementation of the MacBride Principles; and
- workplace safety and health issues.

Voting of these policies is delegated to external investment managers responsible for international investment. Each issue should be considered by investment managers in the context of the company under review and subject to a rigorous analysis of the economic impact an issue may have on the long-term shareholder value.



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I. FINANCIAL REPORTS AND AUDITOR ISSUES

A. DIRECTOR, AUDITOR AND FINANCIAL STATEMENT REPORTS

Most companies around the world submit these reports to shareholders for approval, and this is one of the first items on most agendas. The official financial statements and director and auditor reports are valuable documents when evaluating a company's annual performance. The director report usually includes a review of the company's performance during the year, justification of dividend levels and profits or losses, special events such as acquisitions or disposals, and future plans for the company.

When evaluating a company's financial statements, important factors should be considered including: debt/equity levels on the balance sheet, historical sales and earnings performance, dividend history and payout ratios, and the company's own performance relative to similar companies in its industry.

The CRPTF would:

- Vote FOR approval of financial statements and director and auditor reports, unless:
 - there are concerns about the accounts presented or audit procedures used; or
 - the company is not responsive to shareholder questions about specific items that should be publicly disclosed.

B. APPOINTMENT OF AUDITORS AND AUDITOR COMPENSATION

Most major companies around the world use one of the major international auditing firms to conduct their audits. If a company proposes a new auditor or an auditor resigns and does not seek reelection, companies should offer an explanation to shareholders. The practice of auditors contributing nonaudit services to companies is problematic. While large auditors may have effective internal barriers to ensure that there are no conflicts of interest, an auditor's ability to remain objective becomes questionable when fees paid to the auditor for nonaudit services such as management consulting, general bookkeeping, and special situation audits exceed the standard annual audit fees. While some compensation for nonaudit services is customary, the importance of maintaining the independence of the auditor is paramount.

The CRPTF would:



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- Vote **FOR** the reelection of auditors and proposals authorizing the board to fix auditor fees, unless:
 - there are serious concerns about the accounts presented or the audit procedures used;
 - the auditors are being changed without explanation; or
 - nonaudit-related fees are substantial or are routinely in excess of standard annual audit fees.
- Vote **AGAINST** the appointment of external auditors if they have previously served the company in an executive capacity or can otherwise be considered affiliated with the company.
- **ABSTAIN** if a company changes its auditor and fails to provide shareholders with an explanation for the change.

C. APPOINTMENT OF INTERNAL STATUTORY AUDITORS

The appointment of internal statutory auditors is a routine request for companies in Latin America, Italy, Spain, Portugal, Japan, and Russia. The statutory auditing board is usually composed of three to five members, including a group chairman and two alternate members, all of whom are expected to be independent. In addition to the regular duty of verifying corporate accounts, the auditor board is responsible for supervising management and ensuring compliance with the law and articles of association. The auditors must perform an audit of the accounts every three months and present to shareholders a report on the balance sheet at the Annual General Meeting (AGM). For most countries, the auditors are elected annually and may seek reelection.

The CRPTF would:

- Vote **FOR** the appointment or reelection of statutory auditors, unless:
 - there are serious concerns about the statutory reports presented or the audit procedures used;
 - questions exist concerning any of the statutory auditors being appointed; or
 - the auditors have previously served the company in an executive capacity or can otherwise be considered affiliated with the company.

II. AMENDMENTS TO ARTICLES OF ASSOCIATION



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Requests to amend a company's articles of association are usually motivated by changes in the company's legal and regulatory environment, although evolution of general business practice can also prompt amendments to articles. Such proposals are especially common whenever stock exchange listing rules are revised, new legislation is passed, or a court case exposes the need to close loopholes.

Amendments to articles range from minor spelling changes to the adoption of an entirely new set of articles. While the majority of such requests are of a technical and administrative nature, minor changes in wording can have a significant impact on corporate governance. From a company's perspective, it is often more efficient to adopt a new set of articles than to introduce numerous amendments. However, bundling changes that treat different provisions of the articles into one voting item prevents shareholders from separating items of concern from routine changes. By leaving a shareholder with an all-or-nothing choice, bundling allows companies to include negative provisions along with positive or neutral changes. The final criterion is whether failure to pass a resolution would cause an immediate loss of shareholder value.

The CRPTF would:

- Vote amendments to the articles of association on a CASE-BY-CASE basis.

A. CHANGE IN COMPANY FISCAL TERM

Companies routinely seek shareholder approval to change their fiscal year end. This is a decision best left to management. The CRPTF opposes this resolution only if the company is changing its year end to postpone its AGM. Most countries require companies to hold their AGM within a certain period of time after the close of the fiscal year. If a company is embroiled in a controversy, it might seek approval to amend its fiscal year end at an AGM to avoid controversial issues at an AGM.

The CRPTF would:

- Vote FOR resolutions to change a company's fiscal term unless a company's motivation for the change is to postpone its AGM.

B. LOWER DISCLOSURE THRESHOLD FOR STOCK OWNERSHIP

Required shareholder disclosure of stock ownership levels vary around the world. In the United States, shareholders owning more than five percent (5%) of outstanding shares are required to disclose share ownership. Some countries require disclosure levels such as ten percent (10%) while other countries require lower levels than the U.S. For example, the United Kingdom requires disclosure of stakes of three percent or greater. In some



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countries, shareholders may be asked from time to time to reduce the disclosure requirement at a specific company.

The CRPTF would:

- Vote AGAINST reductions that could act as a pretext for an anti-takeover device.
- Vote FOR resolutions to lower the stock ownership disclosure threshold in the interests of providing more disclosure by significant shareholders.

C. TRANSACT OTHER BUSINESS

This item provides a forum for questions and any other resolutions that may be brought up at the meeting. In most countries the item is a formality and does not require a shareholder vote, but companies in certain countries include “other business” as a voting item. When “other business” is included as an item on the ballot to be voted, there is no opportunity for shareholders to receive information in advance related to these items. Therefore, shareholders cannot risk the negative consequences of voting in advance on an item for which information has not been disclosed.

The CRPTF would:

- Vote AGAINST other business when it appears as a voting item.

III. BOARD OF DIRECTORS

A. DIRECTOR AND SUPERVISORY BOARD MEMBER ELECTIONS

Most countries around the world maintain an Anglo-Saxon board structure, prevalent in the United States, in which company executive and non-executive directors are organized into a single board. However, companies in a number of countries maintain two-tiered board structures, comprising a supervisory board of non-executive directors and a management board with executive directors. The supervisory board oversees the actions of the management board, while the management board is responsible for the company's daily operations. At companies with two-tiered boards, shareholders elect members to the supervisory board only; management board members are appointed by the supervisory board. In Austria, Brazil, the Czech Republic, Germany, Peru, Poland, Portugal, and Russia, two-tiered boards are the norm. They are also permitted by company law in France and Spain.



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Depending on the country, shareholders will be asked to either elect directors or supervisory board members at annual meetings. The CRPTF considers director/supervisory board elections to be one of the most important voting decisions that shareholders make, especially because shareholders are only given the opportunity to review their companies' operations once a year at the AGM. Thus, if detailed information on boards or nominees is available, analysis to the highest degree possible is warranted. Directors and supervisory board members function as the representatives of shareholders and stakeholders throughout the year and are therefore, a crucial avenue of ongoing influence on management.

Levels of disclosure regarding directors vary widely. In some countries, such as the United Kingdom, Canada, and Australia, companies publish detailed information such as director biographies, share ownership, and related information that aids shareholders in determining the level of director independence. In many other countries, the only information available on directors is their names, while still other countries disclose no information at all. In cases where detailed information about directors is not available, it would be counterproductive to vote against directors on the basis of a lack of information. Opposition to specific nominees or boards should be supported by specific problems or concerns.

When reviewing director election proposals, examine board composition, company performance, and any negative views or information on either the company or individual directors. Determine the number of executive and independent directors on the board, the existence and composition of board committees, and the independence of the chairman. An independent director is one whose only significant relationship with the company is through its board seat. Members of supervisory boards, which represent organized workers' interests, are defined as independent. In cases where board composition is of concern, the company's general health and its recent financial performance may play a part in the evaluation of directors. Individual director information is also considered, including share ownership among director nominees.

The CRPTF takes into account the attendance records of directors when such information is provided to shareholders, using a benchmark attendance rate of 75 percent of board meetings. If an individual director fails to attend at least 75 percent of board meetings for two or more consecutive years, further inquiries should be made to the company regarding the absences. Statements of corporate governance practices are also helpful in reviewing director election proposals, but only in a few countries are these routinely included as part of the annual report, usually as a listing requirement of the major stock exchange. These reports are required in Australia, Canada, South Africa, and the United Kingdom.



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Serious consideration of shareholder nominees will be given if there are clear and compelling reasons for the nominee to join the board.

The CRPTF would:

- Vote FOR management nominees in the election of directors, unless:
 - there are clear concerns about the past performance of the company or the board;
 - the board fails to meet minimum corporate governance standards, (e.g., board independence, executive compensation that is performance based, disclosure);
 - the board takes actions that are not in shareholders' best interests (excessive executive compensation, adopting antitakeover devices, failure to respond to shareholder concerns/wishes, or demonstrating a "lack of duty or care"); or
 - the board has been insensitive to labor interests, human rights, supplier codes of conduct, or has engaged in other corporate activities that affect the reputation of the company in the global market.

B. DIRECTOR FEES

Fees for nonexecutive directors have been rising in recent years in recognition that such directors around the world are being asked to take on more responsibility for company affairs. The primary focus should be on fees paid to nonexecutive directors or fees paid to all directors, separate from the salaries of executive directors. In many countries, only an aggregate amount payable to nonexecutives or to all directors is disclosed.

Retirement benefits for nonexecutive directors are inappropriate, as they increase the directors' financial reliance on the company and could call into question the objectivity of their decision-making. In addition, most directors have served as senior executives of other companies, and adequate retirement benefits should be provided through these companies. The only caveat to this policy would be for professional nonexecutive directors such as those found in the United Kingdom. However, requests for such benefits in the United Kingdom are rare, and the appropriateness of using shareholder funds in this manner is questionable.

The CRPTF would:

- Vote FOR proposals to award director fees unless the amounts are excessive relative to other companies in the country or industry.



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- Vote AGAINST proposals to introduce retirement benefits for nonexecutive directors.

C. DISCHARGE OF BOARD AND MANAGEMENT

The annual formal discharge of board and management represents shareholder approval of actions taken during the year. Discharge is a tacit vote of confidence in the company's management and policies. It does not necessarily eliminate the possibility of future shareholder action, although it does make such action more difficult to pursue. Meeting agendas normally list proposals to discharge both the board and management as one agenda item.

This is a routine item in many countries, and discharge is generally granted unless a shareholder states a specific reason for withholding discharge and plans to undertake legal action. Withholding discharge is a serious matter and is advisable only when a shareholder has concrete evidence of negligence or abuse on the part of the board or management, has plans to take legal action, or has knowledge of other shareholders' plans to take legal action.

If evidence suggests that one or more board or management members are responsible for problems such as fraud or grave mismanagement, shareholders can withhold discharge from these individuals and pursue further legal action. Poor performance that can be directly linked to flagrant error or neglect on the part of the board or management, or board actions that are detrimental to shareholders' interests, may also constitute grounds for voting against discharge.

If shareholders approve discharge of the board and management, they may face a greater challenge if they subsequently decide to pursue legal action against these parties. Shareholders would be required to prove that management or the board did not supply correct and complete information regarding the matter in question.

The CRPTF would:

- Vote CASE-BY-CASE on the discharge of the board and management.

D. LIABILITY AND INDEMNIFICATION FOR DIRECTORS, OFFICERS AND AUDITORS

Management proposals typically seek shareholder approval to adopt an amendment to the company's charter to eliminate or limit the personal liability of directors to the company and its shareholders for monetary



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damages for any breach of fiduciary duty to the fullest extent permitted by law. In contrast, shareholder proposals seek to provide for personal monetary liability for fiduciary breaches arising from gross negligence. While recognizing that a company may have a more difficult time attracting and retaining directors if they are subject to personal monetary liability, the great responsibility and authority of directors justifies holding them accountable for their actions. Each proposal addressing director liability will be evaluated consistent with this philosophy. Support these proposals when the company persuasively argues that such action is necessary to attract and retain directors, but oppose management proposals and support shareholder proposals in light of our philosophy of promoting director accountability.

Specifically, oppose management proposals that limit a director's liability for (i) a breach of the duty of loyalty, (ii) acts or omissions not in good faith or involving intentional misconduct or knowing violations of the law, (iii) acts involving the unlawful purchases or redemptions of stock, (iv) the payment of unlawful dividends, or (v) the receipt of improper personal benefits.

By indemnifying its directors and officers, a company promises to reimburse them for certain legal expenses, damages, and judgments incurred as a result of lawsuits relating to their corporate actions, thereby effectively becoming the insurer for its officers and directors (the company usually purchases insurance to cover its own risk). Proposals to indemnify a company's directors differ from those to eliminate or reduce their liability because with indemnification directors may still be liable for an act or omission, but the company will bear the expense.

Vote in favor of indemnification proposals that contain provisions limiting such insurance to acts carried out on behalf of the company. The directors covered under the indemnification must be acting in good faith on company business and must be found innocent of any civil or criminal charges for duties performed on behalf of the company. Additionally, the company may persuasively argue that such action is necessary to attract and retain directors, but we will oppose indemnification when it is being proposed to insulate directors from actions they have already taken.

Indemnity insurance to auditors call into question the objectivity of the auditor in carrying out the audit, as the fees paid on its behalf could be greater than the audit fees alone. Eliminating concerns about being sued for carelessness could also lead to a decrease in the quality of the audit. Given the substantial settlements against auditors in recent years for poor audit practices, the cost of such insurance to the company and its shareholders is unwarranted.



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The CRPTF would:

- Vote CASE-BY-CASE on proposals that provide director liability for actions on behalf of the company.
- ABSTAIN on proposals that provide for director liability where national law dictates that a shareholder who casts a FOR vote forfeits legal rights, such as the right to sue a company.
- Vote FOR proposals to allow indemnification of directors and officers when actions were taken on behalf of the company and no criminal violations occurred.
- Vote AGAINST proposals to indemnify auditors.
- Vote AGAINST proposals to reduce or eliminate directors' personal liability when litigation is pending against current board members.

E. BOARD STRUCTURE

Resolutions relating to board structures range from fixing the number of directors or establishing a minimum or maximum number of directors to introducing classified boards and director term limits.

1. Board Size

Proposals to fix board size are common and are routinely approved. Proposals to establish a range of board size are also frequent; a range of two or three open slots relative to the existing board size is reasonable, as it gives the company some flexibility to attract potentially valuable board members during the year. Latitude beyond this range is inappropriate, however, because companies can use this freedom to hinder unwanted influence from potential acquirers or large shareholders.

2. Adopt Classified Board

All directors should be accountable to shareholders on an annual basis, as the ability to elect directors is the single most important use of the shareholder franchise.

While classified boards are the norm in most countries, some companies have chosen to place their directors up for annual election. Classifying the board makes it more difficult to effect a change of control through a proxy contest; because only a minority of the directors are elected each year, a dissident shareholder would be unable to win control of the board in a single election.



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3. Introduction of Mandatory Age of Retirement

Age should not be the sole factor in determining a director's value to a company. Rather, each director's performance should be evaluated on the basis of their individual contribution and experience.

4. Altering Board Size

Companies may attempt to increase board size in order to add related or like-minded directors to the board. Conversely, establishing a minimum number of directors could make it easier to remove independent directors from the board.

All proposals to alter board size during a proxy fight or other possible contests for control should be opposed. Allowing directors to alter the terms of a contest while it is underway is not in shareholders' interests, as this tactic could be used to thwart a takeover that is in shareholders' interests.

The CRPTF would:

- Vote FOR proposals to fix board size.
- Vote AGAINST the introduction of classified boards and mandatory retirement ages for directors.
- Vote AGAINST proposals to alter board structure or size in the context of a fight for control of the company or the board.

IV. CAPITAL SYSTEMS

Companies have one of two main types of capital systems: authorized and conditional. Both systems provide companies with the means to finance business activities, but they are considerably different in structure. Which system is used by a company is determined by the economic and legal structure of the market in which it operates.



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A. AUTHORIZED CAPITAL SYSTEM

The authorized capital system sets a limit in a company's articles on the total number of shares that can be issued by the company's board. The system allows companies to issue shares from this preapproved limit, although in many markets shareholder approval must be obtained prior to an issuance. Companies also request shareholder approval for increases in authorization when the amount of shares contained in the articles is inadequate for issuance authorities. The CRPTF expects that proposals will be reviewed for such increases based on the following criteria: the history of issuance requests; the size of the request; the purpose of the issuance (general or specific) associated with the increase in authorization; and the status of preemptive rights as defined below in Section C.

B. CONDITIONAL CAPITAL SYSTEM

Under the conditional capital system, companies seek authorizations for pools of capital with fixed periods of availability. For example, if a company seeks to establish a pool of capital for general issuance purposes, it requests the creation of a certain number of shares with or without preemptive rights, issuable piecemeal at the discretion of the board for a fixed period of time. Shares unissued after the fixed time period lapse. This type of authority would be used to carry out a general rights issue or small issuances without preemptive rights.

Requests for a specific issuance authority are tied to a specific transaction or purpose, such as an acquisition or the servicing of convertible securities. Such authorities cannot be used for any purpose other than that specified in the authorization. In this case, a company requests the creation of a certain number of shares with or without preemptive rights, issuable as needed for the specific purpose requested. This pool of conditional capital also carries a fixed expiration date.

In reviewing these proposals, the existence of pools of capital from previous years are to be taken into consideration. Because most capital authorizations are for several years, new requests may be made on top of the existing pool of capital. While most requests contain a provision to eliminate earlier pools and replace them with the current request, this is not always the case. Thus, if existing pools of capital are being left in place, the aggregate potential dilution amount from all capital should be considered.

C. SHARE ISSUANCE REQUESTS

General issuance requests under both authorized and conditional capital systems (defined below) allow companies to issue shares to raise funds for general financing purposes. Approval of such requests gives companies



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sufficient flexibility to carry out ordinary business activities without having to bear the expense of calling shareholder meetings for every issuance.

Issuances can be carried out with or without preemptive rights. Preemptive rights permit shareholders to share proportionately in any new issuances of stock. These rights guarantee existing shareholders the first opportunity to purchase shares of new issuances of stock in the class they own in an amount equal to the percentage of the class they already own. Corporate law in many countries recognizes preemptive rights and requires shareholder approval for the disapplication of such rights.

The ability to increase share capital by 50 percent through a rights issue (with preemptive rights) provides the company with sufficient financing to meet most contingencies. Rights issues for general capital needs of less than 50 percent of outstanding capital warrant shareholder approval. Issuance authorities of more than 50 percent can lead to excessive cash calls on shareholders, requiring them to provide the funds necessary to maintain their relative positions in the company or to accept substantial dilution.

In some cases, companies may need the ability to raise funds for routine business contingencies without the expense of carrying out a rights issue. Such contingencies could include the servicing of option plans, small acquisitions, or payment for services. When companies make issuance requests without preemptive rights, shareholders suffer dilution as a result of such issuances. Therefore, authorizations should be limited to a fixed number of shares or a percentage of capital at the time of issuance. While practices regarding this type of authority vary widely among countries, the CRPTF would generally approve issuance requests without preemptive rights for up to ten percent of a company's outstanding capital.

D. SPECIFIC ISSUANCES

Specific issuance requests should be judged on their individual merits. For example, a company may request the issuance of shares for an acquisition in the form of a rights issue to raise funds for a cash payment, or else a company could request an issuance without preemptive rights for use in a share-based acquisition or issuance to a third party. A more routine request would be an authority to issue shares without preemptive rights for issuance as needed upon conversion of convertible securities or to service a share option plan. These shares can only be used for the purpose defined in the resolution.

E. FOR ALL OF THE ISSUES DISCUSSED ABOVE – IV. A THROUGH D;

The CRPTF would:



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- Vote FOR general issuance requests with preemptive rights up to 50 percent of issued capital;
- Vote FOR general issuance requests without preemptive rights up to ten percent of issue capital; and
- Vote on a CASE-BY-CASE basis for specific issuance requests with or without preemptive rights up to any amount depending on the purpose for the issuance.

E. INCREASES IN AUTHORIZED CAPITAL

Increases in authorized capital are requested both for general financing flexibility and to provide for a specific purpose. Companies need an adequate buffer of unissued capital in order to take advantage of opportunities during the year, and thus they often request increases in authorized capital for no specific purpose other than to retain this flexibility. An increase of 50 percent over the existing authorization gives the company sufficient flexibility in any given year but also limits the company's ability to abuse this privilege. If a company wishes to issue shares for any unforeseen reason during the year that would double (or possibly triple) outstanding share capital, an AGM to seek shareholder approval is justified.

Another important consideration is the status of preemptive rights. Not all countries recognize shareholders' preemptive rights, and excessive authorizations could lead to substantial dilution for existing shareholders. When preemptive rights are not guaranteed, companies do not need shareholder approval for share issuances as long as the issuance does not result in an increase above the authorized capital limit.

For specific requests, increases in capital up to any size may be justified if the purpose of the new authorization is in shareholders' interests. Such increases may be needed to fund a variety of corporate activities, and thus each proposal must be reviewed on its individual merits.

Companies do not need unlimited financial flexibility to transact ordinary business because such an arrangement precludes management from periodically consulting shareholders for new capital. Unlimited authorizations may also be used as antitakeover devices, and they have the potential for substantial voting and earnings dilution.

The CRPTF would:

- Vote FOR nonspecific proposals to increase authorized capital up to 50 percent over the current authorization.



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- Vote FOR specific proposals to increase authorized capital to any amount, unless:
 - the specific purpose of the increase (such as a share-based acquisition or merger) does not meet the guidelines for the purpose being proposed.
- Vote AGAINST proposals to adopt unlimited capital authorizations.

F. REDUCTION OF CAPITAL

Proposals to reduce capital are usually the result of a significant corporate restructuring in the face of bankruptcy. Generally support such proposals because opposition could lead to insolvency, which is not in shareholders' interests. Evaluation of this type of proposal should take a realistic approach to the company's situation.

The CRPTF would:

- Vote FOR proposals to reduce capital unless the terms are unfavorable to shareholders.

V. CAPITAL STRUCTURES

A key decision for any business is determining its capital structure. When timed correctly, sophisticated capital management—finding the right mix of equity, long-term debt, and short-term financing—can enhance shareholder returns. This process involves coordination of important issues, including dividend policy, tax and interest rates, types of assets, opportunities for growth, ability to finance new projects internally, and cost of obtaining additional capital.

These decisions are best left to a company's board and senior management, who should be given the latitude to determine the company's capital structure. However, shareholders should be aware that many financing decisions could have an adverse effect on shareholder returns. For example, additional equity financing may reduce an existing shareholder's ownership interest and can dilute the value of the investment. Some capital requests can be used as takeover defenses; in response to this situation, company laws establish limits on management's authority to issue new capital and often require shareholder approval for significant changes in management's existing authorizations.

The CRPTF supports a one share, one vote policy and opposes mechanisms that skew voting rights. Shareholders' voting rights should accrue in accordance with their equity capital commitment to the company. Dual class capital structures entrench certain shareholders and management, insulating them from possible



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takeovers or other external influence or action. The interests of parties with voting control may not be the same as those of shareholders constituting a majority of the company's capital. Additionally, research and market experience have shown that companies with dual class capital structures or other antitakeover mechanisms consistently trade at a discount to similar companies without such structures.

When companies with dual class capital structures seek shareholder approval for the creation of new shares, CRPTF opposes the creation of additional super-voting shares because this perpetuates the dual class structure. If companies are seeking to increase ordinary or subordinate share capital, the CRPTF expects that such requests would be reviewed on a case-by-case basis. If the shares are needed for a specific purpose, these guidelines support such appraisal as long as the proposal meets the issuance guidelines (see IV. E for these guidelines) for specific requests. Refusing such requests could cause an immediate loss of shareholder value by not allowing the company to carry out its ordinary business. However, CRPTF opposes general share creation requests on the grounds that they would perpetuate unequal voting structures. If shareholders routinely approve the creation of ordinary or subordinate voting shares, the company has no incentive to reform its capital structure. By not approving such requests, shareholders can send a signal of dissatisfaction to management.

The CRPTF would:

- Vote FOR resolutions that seek to maintain or convert to a one share, one vote capital structure.
- Vote AGAINST requests for the creation or continuation of dual class capital structures or the creation of new or additional super-voting shares.

A. PREFERRED STOCK AND BLANK CHECK PREFERRED STOCK

Preferred stock (also known as preference shares) is an equity security, but it has certain features that liken it to debt instruments, such as fixed dividend payments, seniority of claims relative to regular common stock, and (in most cases) no voting rights except on matters that affect the seniority of preferred stock as a class. Preferred stock usually ranks senior to a company's ordinary shares with respect to dividends and the distribution of assets or winding down of the company. Companies often request approval for the creation of a new class of preferred stock, the issuance of preferred stock, and the introduction of blank check preferred stock authorization. The terms of preferred stock need to be set out at the time of the issuance or authorization request.

Preferred stock can be an effective means of raising capital without increasing debt levels, especially if a company has recently concluded a



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series of acquisitions. In determining the acceptability of proposals relating to preferred stock, these guidelines expect that the rights and terms of the proposed shares will be examined, including their designation, conditions, restrictions, and limitations. Whether or not the preferred shares carry voting rights is also considered, along with their conversion ratio (if the shares are convertible into common shares). Also important is the company's justification for issuing or authorizing preferred stock. The CRPTF supports proposals that would not result in excessive dilution or adversely affect the rights of holders of common shares.

Companies may also seek shareholder approval for blank check preferred stock, which are blanket authorities to issue preferred stock under which the directors are allowed to set the size, terms, and recipient of such shares at the time of issuance. Blank check preferred stock can be used for legitimate corporate purposes such as raising capital or making acquisitions. By not establishing the terms of preferred stock at the time the class of stock is created, companies maintain the flexibility to tailor their preferred stock offerings to prevailing market conditions. However, blank check preferred stock can also be used as an entrenchment device. The ability to issue a block of preferred stock with multiple voting or conversion rights to a friendly investor is a powerful takeover defense. As such, the CRPTF does not support the creation of blank check preferred stock.

These guidelines also expect that a case-by-case analysis will be applied to proposals to increase authorizations of blank check preferred stock when shareholders have already approved the class of stock and the company has a history of issuing such stock for legitimate financing purposes. Theoretically, companies with authorized blank check preferred stock can use these shares for anti-takeover purposes as long as there are a few shares remaining, as they are free to set voting or conversion terms with each issue. Therefore, an increase in authorization may have little effect on the usage of this stock. In cases where a company has issued preferred stock from its authorization for legitimate financing purposes, there is no reason to object to an increase.

The CRPTF would:

- Vote FOR the creation of a new class of preferred stock or for issuances of preferred stock up to 50 percent of issued capital unless the terms of the preferred stock would adversely affect the rights of existing shareholders.
- Vote AGAINST the creation of blank check preferred stock.



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- Vote proposals to increase blank check preferred authorizations on a CASE-BY-CASE basis.

B. DEBT ISSUANCE REQUESTS

Debt issuance is a popular financing strategy. Debt instruments are often issued with the right to convert into equity securities. Many companies issue debt denominated in currencies other than their own. Bonds may be issued with or without preemptive rights.

Companies routinely issue bonds directly to shareholders in order to raise funds while enjoying low borrowing costs. Convertible bonds give holders the choice of becoming shareholders, thereby increasing the shareholder base and liquidity of the company's stock, or selling their newly converted shares on the open market. The issuance of unsecured debt often includes warrants, which are detached at the time of bond issuance. Warrants are usually attached to a debt issuance in order to enhance the marketability of the accompanying fixed income security.

When evaluating a debt issuance request, CRPTF expects that the issuing company's present financial situation will be examined. The main factor for analysis is the company's current debt-to-equity ratio, or gearing level. A high gearing level may incline markets and financial analysts to downgrade the company's bond rating, increasing its investment risk factor in the process. These guidelines approve debt issuances for companies when the gearing level is between zero(0%) and fifty (50%) percent. If the company's gearing level is higher than fifty percent (50%), the guidelines expect that other financial statistics will be factored into the analysis, such as the company's growth over the past five years relative to earnings or market capitalization, recent corporate events that might affect the company's bottom line (such as the acquisition of a major competitor or the release of a revolutionary product), and the normal debt levels in the company's industry and country of origin. In the case of convertible bonds, the total level of dilution that would result at the time of conversion should also be taken into account.

The CRPTF would:

- Vote debt issuance requests on a CASE-BY-CASE basis, with or without preemptive rights.
- Vote AGAINST an issuance of convertible bonds with preemptive rights if the conversion increases the company's outstanding shares by more than one hundred percent (100%).



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- Vote **AGAINST** an issuance of convertible bonds without preemptive rights if the conversion increases the company's share capital by more than 20 percent over the current outstanding capital.

C. PLEDGING OF ASSETS FOR DEBT

In certain countries, shareholder approval is required when a company needs to secure a debt issuance with its assets. In many cases, this is a routine request and is a formality under the relevant law. When reviewing such proposals, the terms of the proposed debt issuance and the company's overall debt level need to be considered.

The CRPTF would:

- Vote proposals to approve the pledging of assets for debt on a **CASE-BY-CASE** basis.

D. INCREASE IN BORROWING POWERS

In some countries, companies are required to seek shareholder approval for increases in their aggregate borrowing power authorities. The aggregate limit on the board's ability to borrow money is often fixed in a company's articles, and shareholder approval to change this limit is therefore legally required. A company's financing needs are best determined by the board, and modest increases in borrowing powers are necessary to allow the company to take advantage of new acquisition opportunities or to complete development and restructuring projects. When voting on borrowing increase requests, factors such as the management's stated need for the increase, the size of the increase, and the company's current gearing level need to be taken into account. Large increases in borrowing powers can sometimes result in dangerously high debt-to-equity ratios that could harm shareholder value. If an increase is excessive without sufficient justification and if a company already has exceptionally high gearing compared to its industry, oppose the request.

The CRPTF would:

- Vote proposals to approve increases in a company's borrowing powers on a **CASE-BY-CASE** basis.

E. SHARE REPURCHASE PLANS

Proposals regarding share repurchase plans are routine in most countries, and such plans are usually sufficiently regulated by local laws or listing requirements to protect shareholder interests.



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Look for the following conditions in share repurchase plans: limitations on a company's ability to use the plan to repurchase shares from third parties at a premium; limitations on the exercise of the authority to thwart takeover threats; and a requirement that repurchases be made at arm's length through independent third parties and that selective repurchases require shareholder approval.

The CRPTF would:

- Vote AGAINST, if there is evidence of past abuse of the authority is available; or the plan contains no safeguards against selective buybacks.
- Vote AGAINST, if additional investment is needed in business upgrades.

F. CAPITALIZATION OF RESERVES FOR BONUS ISSUES/INCREASE IN PAR VALUE

Companies routinely carry out bonus issues of shares or increases in par value to existing shareholders, usually through the capitalization of reserves from either the share premium reserve or the retained earnings account. Capitalization of these reserves-transferring them into the share capital account-usually requires shareholder approval. These issuances essentially function as dividends.

When companies increase par value or capitalize reserves and distribute new fully paid shares to shareholders free of charge through a bonus issue, there is no cost to shareholders to maintain their stakes and no risk of dilution. This procedure transfers wealth to shareholders and does not significantly impact share value. The only impact on shareholders is that by increasing the number of shares on issue, the company could increase liquidity, enhance marketability, and ultimately expand its shareholder base.

The CRPTF would:

- Vote FOR requests to capitalize reserves for bonus issues of shares or to increase par value.

G. STOCK (SCRIP) DIVIDEND ALTERNATIVE AND DIVIDEND REINVESTMENT PLANS

Stock dividend alternatives, also referred to in some markets as "scrip" dividend alternatives or dividend reinvestment plans (DRIPS), offer shareholders the option of receiving their dividend payment in the form of



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fully paid ordinary shares and are common proposals worldwide. While dividend payments in the form of shares in lieu of cash do not immediately add to shareholder value, they allow companies to retain cash and to strengthen the position and commitment of long-term shareholders.

The CRPTF would:

- Vote FOR stock (scrip) dividend proposals.
- Vote AGAINST proposals that do not allow for a cash option unless management demonstrates that the cash option is harmful to shareholder value.

VI. RESTRUCTURING AND TRANSACTIONS

A. REORGANIZATIONS/RESTRUCTURINGS

Requests to approve corporate reorganizations or restructurings range from the routine shuffling of subsidiaries within a group to major rescue programs for ailing companies. These guidelines expect that such resolutions will usually be approved, unless there are clear conflicts of interest among the various parties, shareholders' rights are being negatively affected, or certain groups or shareholders appear to be getting a better deal at the expense of general shareholders.

In the case of routine reorganizations of assets or subsidiaries within a group, the primary focus with the proposed changes is to ensure that shareholder value is being preserved. This includes the effect of the reorganization on the control of group assets, the final ownership structure, the relative voting power of existing shareholders if the share capital is being adjusted, and the expected benefits arising from the changes.

It is important to assess the proposed restructuring and its impact on job loss with an emphasis on the company's U.S. operations. In certain circumstances, jobs may be lost due to economic inefficiencies. However, we will not support reorganizations that unnecessarily eradicate employment, harming the beneficiaries, communities, and the company's economic position.

In the case of a distress restructuring of a company or group, shareholders' options are far more limited; often, they have no choice but to approve the restructuring or lose everything. In such cases, the CRPTF expects that the company's degree of distress will be evaluated by determining whether or not the company still has a positive net asset value—that is, if realizable



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assets are greater than liabilities. Although rare, liquidation should be considered an option in these situations.

In most cases, however, the company has a negative asset value, meaning that shareholders would have nothing left after a liquidation. Vote to ensure that the degree of dilution proposed is consistent with the claims of outside parties and is commensurate with the relative commitments of other company stakeholders. Existing shareholders usually must accept the transfer of majority control over the company to outside secured creditors. Ultimately, ownership of a small percentage of something is worth more than majority ownership of nothing.

The CRPTF would:

- Vote reorganizations and restructurings on a CASE-BY-CASE basis.

B. MERGERS AND ACQUISITIONS

When evaluating the merits of a proposed acquisition, merger, or takeover offer, focus on the financial and corporate governance impact on shareholder value, both in the immediate and long term. The primary concern is to determine whether or not the proposal is beneficial to shareholders' existing and future earnings stream and to ensure that the impact on voting rights is not disproportionate to that benefit. Generally, we are interested in the long-term shareholder interests as opposed to short-term gains that devalue assets and have a negative impact on workers and communities. Based on this premise, evaluate proposed mergers by looking at the justification for the merger; whether a reasonable financial arrangement has been proposed and a fairness opinion rendered; and the long-term impact of the business plans of the competing parties. Also, assess the impact of the proposed merger on the affected workforce and community including the proposed merger's impact on job loss with an emphasis on the company's U.S. operations. In certain circumstances, jobs may be lost due to economic inefficiencies. However, we will not support mergers that unnecessarily eradicate employment, harming the beneficiaries, communities, and the company's economic position.

In the case of a cross-border merger, consider the proposed merger affect on labor standards and do not not support mergers that diminish basic labor standards. The resulting entity should comply with applicable laws and principles protecting employees' wages, benefits, working conditions, freedom of association, and other rights.

In the case of an acquisition, examine the level of voting or earnings dilution and the logic of the proposed purchase if large share issuances are required. The method of financing is also important, as various methods can result in



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different valuations than originally perceived. Checks for an independent valuation of the terms, particularly if the target of the acquisition is not a publicly traded entity or asset and precise market valuations are not readily available.

Independent evaluation is important when determining whether or not a specific premium is justified. Control premiums (additional payment on top of share price to gain full or partial control of the company) on acquisitions vary widely depending on the industry, the time period, and the country. During the late 1980s in the United States, control premiums of up to 70 percent in certain sectors were considered reasonable. Broad averages over time indicate that premiums in the range of 20 percent to 30 percent are normal, but this must be evaluated on a case-by-case basis. For publicly traded entities or assets, look at the price of the acquisition relative to the average market price prior to any announcement, as well as the historical price trends for 60 days prior. For nonpublicly traded entities or assets, an independent financial evaluation becomes even more important.

In the case of mergers, examine whether or not the merger makes commercial or strategic sense for the company, and consider the method of effecting the merger and the ultimate impact on shareholders of the proposed financial and corporate governance structure. While historical relative valuations based on market prices are useful in the financial evaluation process, the often complicated financial details of such proposals make an independent fairness opinion of extreme importance. The proposed board structure, share capital structure, and relative share ownership of the new company are all important factors for consideration in this evaluation process.

The CRPTF would:

- Vote FOR mergers and acquisitions, unless:
 - the impact on earnings or voting rights for one class of shareholders is disproportionate to the relative contributions of the group; or
 - the company's structure following the acquisition or merger does not reflect good corporate governance (this will be defined differently within each market context, but should consider such basic provisions as board independence, performance based executive compensation and disclosure of major corporate reorganizations); or
 - there is a high degree of job loss with no reasonable explanation; or
 - there is a significant reduction in basic labor standards.



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- Vote **AGAINST** if the companies do not provide sufficient information upon request to make an informed voting decision.
- **ABSTAIN** if there is insufficient information available to make an informed voting decision.

C. REINCORPORATION PROPOSALS

Reincorporation proposals are most commonly seen in Canada, where companies may register under one of the provincial business statutes. However, companies in other countries may also seek shareholder approval to reincorporate in a U.S. state or another country. Many companies, including U.S. companies, choose to reincorporate in places such as Bermuda, the Cayman Islands, or the British Virgin Islands for tax purposes.

Sometimes a reincorporation proposal is part of a restructuring effort or merger agreement that contributes significantly to a company's growth, financial health, and competitive position more than the anticipated negative consequences of incorporating in another province or country. Some reincorporations allow firms to realize lower taxes or incorporation fees. In addition, there may be advantages to incorporating in the province in which the company conducts the bulk of its business.

Companies often adopt a new charter or bylaws with increased protection for management upon reincorporation. For instance, many reincorporation proposals are bundled with the ratification of a new charter that increases the company's capital stock or imposes a classified board. When such changes to the charter include the addition of negative corporate governance provisions, the impact of these new provisions on shareholders must be balanced against the anticipated benefits of the reincorporation.

The expenses involved in a change of domicile relating to legal and administrative fees, plus the greater entrenchment such a reincorporation could provide management, would likely harm shareholders' interests. In cases where companies propose to move to a more protective province or country and supply reasonable financial reasons for doing so, the benefits of the reincorporation must be weighed against the costs of possible management entrenchment. The CRPTF also expects that the reincorporation's impact on the employment environment will be considered.

The CRPTF would:

- Vote reincorporation proposals on a **CASE-BY-CASE** basis.



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- Vote AGAINST the reincorporations to countries, states, or provinces with less stringent disclosure requirements or corporate governance provisions that may be management attempts to lessen accountability to shareholders.
- Vote AGAINST reincorporations to new jurisdictions that diminish basic labor rights and standards.

D. EXPANSION OF BUSINESS ACTIVITIES

Companies are usually required by law to include in their articles of association or memorandum of association specific business purposes in the form of an objects clause. Because most countries require shareholder approval before articles can be amended, any change to the company's objects clause requires shareholder approval. Countries often seek shareholder approval to amend the objects clause to expand business lines.

Expanding business lines is a decision usually best left to management, but there are some instances where these guidelines anticipate that support will be withheld for such changes. If a company has performed poorly for several years and seeks business expansion into a risky enterprise, further clarification from management regarding the purpose of the expansion is required. If the company does not provide a satisfactory business plan, the CRPTF will not support the proposal. Furthermore, if the company does not adhere to basic labor principles or codes of conduct in the expansion of its business, then CRPTF will not support the proposal. For example, the expansion must comply with applicable laws and regulations, provide legitimate policies regarding workplace health and safety, and recognize basic labor rights. The CRPTF believes these policies and practices affect long-term corporate performance and increase shareholder value.

The CRPTF would:

- Vote FOR resolutions to expand business activities unless the new business takes the company into risky areas.

E. RELATED PARTY TRANSACTIONS

Shareholders are often asked to approve commercial transactions between related parties. A transaction between a parent company and its subsidiary, or a company's dealings with entities that employ the company's directors, are usually classified as related party transactions and are subject to company law or stock exchange listing requirements that mandate shareholder approval. Shareholder approval of these transactions is meant to protect shareholders against insider trading abuses. In most cases, both the



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rationale and terms of such transactions are reasonable but an evaluation of the transaction by an independent body is not always available. Unless the agreement requests a strategic move outside the company's charter or contains unfavorable terms, support the proposal

The CRPTF would:

- Vote related party transactions on a CASE-BY-CASE basis.
- ABSTAIN from voting when details of a particular arrangement are not available.

VII. COMPENSATION PLANS

Disclosure on compensation in most countries is not as extensive as U.S. disclosure. However, compensation plans are becoming more common on meeting agendas of foreign companies, and the structures of these plans are of vital interest to shareholders. When given the opportunity to review these structures, we support plans that motivate participants to focus on long-term shareholder value and returns are performance-based, encourage employee stock ownership, and more closely align employee interests with those of shareholders.

Beyond the problems presented by limited disclosure, local conditions and traditions in particular countries also hinder the creation of a comprehensive compensation evaluation procedure. Standard market practice in one country may be illegal activity in another. Some countries establish numerical limits on the number of shares available under their plans, while others have percentage limits that apply over a specific length of time. Holding all global companies to the strict standards of the United States, for example, could result in recommendations against almost every compensation plan in many countries. Conversely, making too many allowances for local practices may only encourage poor governance standards over the long term.

The structure of compensation plans in overseas markets vary widely and there are many provisions that will be factored into the analysis of such plans. The absence or presence of these features do not necessarily warrant a recommendation for or against a given plan, but their presence should be taken into consideration in the analysis of a plan.

Issue Terms

Some countries require optionees to pay a nominal fee (often equivalent to \$0.01) for every option received. This is common and acceptable, although many companies that once enforced this provision are now deleting it from the rules of their plans.



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Stock Appreciation Rights

Stock appreciation rights (SARs) allow participants to receive the difference between the exercise price and the market price at the date of exercise. Many companies use SARs in lieu of regular options. While SARs do not result in the dilution associated with large option exercises, there is little difference between an SAR and a regular option from a shareholder perspective because the financial cost to the company is the same. However, SARs do not encourage stock ownership by participants because they involve no purchase or sale of company stock. CRPTF reviews SARs in the context of the option plan under which they are issued.

Phantom Stock Options

Phantom stock options offer participants cash bonuses based on the increase in share price during a set period of time. Phantom plans are distinct from SARs in that they often form their own separate plan. Some companies will create a phantom stock option plan to award employees who reside in countries that do not allow stock-based compensation. Participants are designated a set number of hypothetical (phantom) shares, on which the award is based.

While the CRPTF prefers compensation plans that encourage employee ownership, SARs and phantom options are an effective way to provide incentive.

Super Options

Super options exceed the limits in a particular country for the value of options granted to any one individual, although they are usually tied to significantly more restrictive vesting provisions and performance criteria. U.K. super options, for example, exceed the Association of British Insurers' recommended limit that options represent no more than four times a participant's salary, yet the stricter performance criteria and longer vesting periods usually mitigate excessive grants. Additionally, dilution resulting from super options has historically been fairly moderate. Super options appear most often in advanced markets with developed stock option plans.

A. STOCK OPTION PLANS

Stock option plans grant participants an option to buy company shares at a set price (the exercise price). Shares are usually granted at market prices and may be exercised when the company's share price reaches the exercise price. Participants may then purchase the promised shares at the strike price and may later sell the shares after their purchase (or after a defined holding period when the shares may not be sold). Among the criteria that PVS examines in evaluating stock option plans are the following, generally organized from criteria of greater importance to criteria of lesser importance:

The CRPTF would:



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- Vote compensation plans on a CASE-BY-CASE basis, taking into account the dilution that will arise from the plan and by analyzing the key features of such plans. Among the criteria that the CRPTF examines in evaluating stock option plans are the following, generally organized from criteria of greater importance to criteria of lesser importance:

1. Shares Reserved for Issuance of Options Under the Plan

The maximum number of shares approved under a plan depends on the classification of a company's stage of development as growth or mature. Growth companies are usually smaller, in new industries requiring significant research and development, and have restricted cash flows. A company in an established industry but expanding rapidly, or a mature company that is experiencing an extended period of rapid expansion, may also be classified as growth. Mature companies are characterized by stable sales and revenue growth, production efficiencies resulting from volume gains, and strong cash flow resulting from developed products in the payoff stage.

For mature companies, shares available under stock option plans should be no more than five percent of the issued capital at the time of approval under all plans. For growth companies, shares available should be no more than ten percent of the issued capital at the time of approval under all plans (and five percent under the proposed plan.) For all companies, an absolute number of shares fixed at the time of approval is ideal, but many countries do not include such a limit. In these cases, revolving limits (a certain percentage of issued shares at any one time) of five or ten percent are common. The practice of setting a percentage of shares issuable over a certain number of years before or after the plan is adopted appears to be a compromise between these first two methods. We prefer plans where the limits are sufficiently spread out, e.g., five percent in five years, ten percent in ten years.

The CRPTF would:

- Vote FOR plans that feature dilution levels of up to five percent (5%) at mature companies and of up to ten percent (10%) at growth-oriented companies.

2. Exercise Price and Discounts



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Options should be priced at 100 percent of the shares' fair market value on the date of grant. Usually this is taken as the closing price of the company's shares on the day prior to the date of grant. Some countries determine fair market value as an average of the trading price for the five days prior to the date of grant. This is a common and acceptable practice. Some emerging market countries use a 30-day average or longer to determine fair market value; these resolutions must be reviewed on a case-by-case basis, although provisions of longer than 30 days increase the possibility of discounted options.

In the absence of vesting periods or performance criteria, discounted option grants to directors amount to a cash bonus at shareholder expense. Under such circumstances, option holders have an incentive to cash in their grants for an immediate return, rather than hold on to their options for future gains. This undermines the incentive value underlining these plans. A few countries allow for options to be granted at a discount to market prices.

The CRPTF would:

- Vote FOR plans that permit discounts up to fifteen percent (15%), but only for grants that are a part of a broad-based employee plan, including all nonexecutive employees.
- Vote AGAINST plans that allow for grants of discounted options to executive officers and/or nonexecutive directors.

3. Plan Administration

Administration of plans should be in the hands of directors who are unable to participate in the plan. Plans administered by the full board should not allow voting by executive directors; plans administered by remuneration committees should be composed entirely of independent directors. Plans that allow nonexecutive directors to participate should not give them any discretion on individual grants; instead, an automatic system of grants should be introduced with fixed annual grants at market prices on a fixed date.

The CRPTF would:



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- Vote FOR plans that are administered by individuals who are unable to participate in the plan, as long as all of the other plan terms are in line with guidelines.
- Vote AGAINST plans that allow the administering committee to grant options to itself due to the potential for “backscratching” abuse.

4. Performance Criteria and Vesting Provisions

Performance criteria and vesting provisions are important considerations when evaluating a compensation plan, and the existence of long vesting provisions and realistic performance criteria are highly preferred. The ultimate goal of share option plans is to tie executive and employee remuneration to company performance and to give key employees and executives incentive to stay with the firm.

The CRPTF would:

- Vote on a CASE-BY-CASE basis considering the absence of these features do not necessarily warrant a recommendation for or against a given plan, but their presence should be taken into consideration in the analysis of a plan. The existence of strong performance criteria can compensate for minor shortcomings in a plan.

B. OTHER FEATURES SPECIFIC TO OPTION PLANS

1. Option Repricing

Some plans include specific provisions allowing for the repricing of options at the board’s discretion. In Canada, companies listed on the Toronto Stock Exchange must seek shareholder approval for repricing options held by insiders of the company. Repricing outstanding options reduces the incentive that options provide to raise the share price for shareholders.

The CRPTF would:

- Vote AGAINST plans that include provisions allowing for option repricing when the exercise price is reduced in response to a drop in the share price and vote against the introduction of plans where there is a history of repricing options, unless options are repriced for lower level employees, in which case we vote on a case-by-case basis.



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- Vote AGAINST proposals seeking shareholder approval to reprice options.

2. Financial Assistance

Some plans offer participants loans to pay the full exercise price on their options. If loans are part of a company's' option plan, they are more preferable as part of a broad-based, company-wide plan to encourage ownership rather than being given only to executive directors. Loans should have interest set at market rates that must be paid back in full over a reasonable length of time.

The CRPTF would:

- Vote FOR plans that allow for the use of loans in option plans as long as such loans are full-recourse, are set a market rates, and have a reasonable term.

3. Restricted Stock

Restricted stock is specifically designated stock offered at discount to executives, often under U.S. option plans but increasingly among overseas plans as well. Company shares may be granted outright to optionees with no payment required for the receipt of the shares. Such awards can be extremely expense, as participants exercise awards at fixed prices far below the current market price. If restricted stock is included as part of a stock option plan, the CRPTF expects strict limits on the amount of shares that may be issued in this form.

The CRPTF would:

- Vote AGAINST the use of restricted stock in option plans, unless there are strict limits on the number of awards that may be granted as restricted stock.

C. INCENTIVE PLANS

Share incentive plans tie key employees' compensation more directly to company performance. Though most popular in the United Kingdom, incentive plans are becoming increasingly popular across the globe. Incentive plans provide participants with free grants of company shares (or,



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less frequently, cash grants) in proportion with prearranged performance criteria-often earnings per share measured against inflation or total shareholder return. These indicators are frequently compared with those of other firms in the company's industry or stock market index, creating a benchmark and a further determinant of the number of shares granted to a particular participant. Proponents of incentive plans note that they offer shareholders the potential for less dilution and that they more directly encourage participants to focus on long-term company performance through strict performance criteria tied to more than just share price movements.

Most incentive plans are organized with strict vesting provisions, where participants may not receive the share awards until after a period of three years or more. Many plans also grant a percentage of the total amount reserved for each participant on a sliding scale measured against performance criteria. Performance criteria targets that have been satisfied only to a certain point may represent disbursement of twenty-five percent (25%) of the shares or cash to a participant, while one hundred percent (100%) satisfaction may represent the full allotment of the grant. From a shareholder perspective, this graduated system of performance criteria is a major advance.

Evaluation of incentive plans is similar to that of option plans in that acceptable dilution and impartial administration and eligibility remain key factors for a positive recommendation. Insufficient performance criteria or abbreviated vesting provisions are deciding factors as well.

The CRPTF would:

- Vote proposals to adopt incentive plans on a CASE-BY-CASE basis, employing the criteria used to examine stock option plans outlined in Section A above.

D. EMPLOYEE SHARE PURCHASE PLANS

Share purchase plans allow participants to purchase shares in the company, often at a discount to market prices. These plans are often broad-based in nature, as they are usually open to all employees. While eligibility under share purchase plans is evaluated similarly to stock option plans, PVS affords more flexibility with the terms of broad-based employee purchase plans. The inclusion of permanent part-time employees and employees who have been with the company for less than one year are provisions of employee plans that are routinely approved. Some plans operate via monthly deductions from employees' paychecks, gathered and held for safe keeping by a trust or a bank and used every month or year to purchase company stock. We approve of these plans if they encourage wide share



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ownership in the company among employees as well as dilution, eligibility and administration.

Some plans offer participants loans to pay for the shares. If loans are part of a share purchase plan, the CRPTF prefers that loans be made to employees as part of a broad-based, company-wide plan to encourage ownership rather than being given only to executive directors. The CRPTF also prefers loans with interest set at market rates that must be paid back in full over a reasonable length of time. The absence of these features does not necessarily warrant a recommendation against a share purchase plan, but they also should be taken into consideration in the analysis of the plan.

The CRPTF would:

- Vote FOR broad-based, employee-directed share purchase plans with discounts up to fifteen percent (15%).
- Vote FOR plans that allow for the use of loans in employee share purchase plans, unless there are specific concerns with the terms of the loans.

E. GRANTS OUTSIDE OF PLANS

Resolutions asking shareholders to approve specific grants of shares or cash outside of established plans are problematic. Some companies prefer not to adopt formal share plans, instead asking shareholders to approve yearly grants to specific employees. The CRPTF prefers that companies make such grants in the context of an established plan.

The number of shares issued as part of the grants, when combined with the number of shares reserved for the company's other share plans, must fall within acceptable dilution limits. Vesting provisions and performance criteria are also important and are evaluated on the same basis as if the grants were part of a formal plan.

The CRPTF would:

- Vote proposals to approve grants outside of formal plans on a CASE-BY-CASE basis, employing the criteria used to examine stock option plans outlined in Section A above.

VIII. ANTITAKEOVER MECHANISMS

Common anti-takeover mechanisms include staggered boards, super-voting shares, poison pills, unlimited authorized capital authorizations (including blank



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check preferred stock), and golden shares. Some of these restrictions are aimed solely at limiting share ownership by foreign or unwanted minority shareholders, and others are designed to preclude an unwanted takeover of the target company by any party. We oppose most forms of such mechanisms, as they limit shareholder value by eliminating the takeover or control premium for the company. As owners of the company, shareholders should be given the opportunity to decide on the merits of takeover offers.

A. RENEW PARTIAL TAKEOVER PROVISION (AUSTRALIA)

Australian law allows companies to introduce into their articles a provision to protect shareholders from partial takeover offers, to be renewed by shareholders every three years. If a partial takeover of the company is announced, directors are required to convene a shareholder meeting at least 15 days before the closing of the offer to seek approval of the offer. If shareholders reject the resolution, the offer is considered withdrawn under company law and the company can refuse to register the shares tendered to the offer. We approve of consulting shareholders on takeover offers, and this article provides protection for minority shareholders by giving them ultimate decision-making authority based on their own interests, not the interests of directors or outside parties.

B. GOLDEN SHARES

Recently privatized companies across the world often include in their share structure a golden share held by their respective governments. These shares often carry special voting rights or the power of automatic veto over specific proposals. Golden shares are most common among former state-owned companies or politically sensitive industries such as utilities, railways, and airlines. While the introduction of golden shares is not a desirable governance practice, the CRPTF recognizes the political importance certain companies hold for governments and treats the introduction or amendment of government shares on a case-by-case basis.

C. POISON PILLS (CANADA)

Otherwise known as shareholder rights plans, poison pills are seen primarily in the Canadian market. Unlike in the United States, Canadian securities legislation requires shareholder approval of all poison pills. Companies generally state that they seek to adopt or renew pills in order to protect shareholders against unfair, abusive, or coercive takeover strategies and to give the target company's board time to pursue alternatives to a hostile takeover bid. Theoretically, the board will refuse to redeem the pill in the face of an unfair offer in order to force a bidder to negotiate for a better offer, at which point it will redeem the pill.



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In accomplishing these goals, however, many rights plans place too much of the decision-making powers in the hands of the board and management and out of the hands of shareholders. However, we note that many Canadian companies have adopted new shareholder rights plans in the past year that have been designed to address the concerns of institutional investors, namely providing for three-year sunset provisions, allowing for partial bids to proceed despite board opposition, and curtailing the overall level of discretion afforded the board in interpreting the pills.

Nonetheless, our policy generally does not support the adoption of poison pills on the grounds that they serve to entrench management. Improperly structured rights plans have been used by boards to ward off offers beneficial to shareholders. Current owners should decide who will own the company, with advice and negotiation from the board and management. When considering the merits of a poison pill examine what other antitakeover devices the company has and the company's treatment of shareholders in past situations.

Canadian poison pills often have a sunset provision, requiring shareholder confirmation of the plan. Most pills have either a three-year sunset provision or a five-year sunset provision, requiring that shareholders confirm the continuation of the plan three or five years from the date of adoption. We support a three-year sunset provision, which affords shareholders the ability to reconsider the plan in light of changing market conditions and to review management's use of the plan.

Canadian pills also typically include a permitted bid clause, under which the takeover bid must be made on equal terms to all holders of the company's voting shares; the company must extend the expiration of the bid, usually by 45 or 60 days following the date of the bid. Management sets the terms of the permitted bid clause, and therefore it influences the level of protection that will be provided to shareholders.

Allowing shareholders the right to override the board as a means of balancing power is crucial, but the specifics of the permitted bid clause are usually insufficient. Under the clause, the pill may be triggered by a shareholder not intent on an complete acquisition, but who merely wishes to purchase a significant stake in the company. This gives the board power to deny shareholders the benefit of a large semi-controlling shareholder and precludes partial bids that may be in shareholders' interests. In addition to the sunset provision and the structure of the permitted bid clause, in order to qualify for approval, a shareholder rights plan must satisfy ALL of the following conditions:

- Permitted bid clause structure: a permitted bid clause must allow for partial bids supported by a majority of shareholders to proceed despite



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board opposition; bid periods should generally not be greater than 60 days; the clause should not contain a "toehold provision" that would any person who already controls a specified percentage of shares from making a permitted bid;

- Amendments: the ability of the board to amend key terms of the plan without shareholder approval following initial adoption of the plan must be limited to clerical and typographical changes and changes required to maintain the validity of the rights plan;
- Exchange option: a plan must not contain a provision that would enable the board to issue in exchange for the right, with or without further charge, debt or equity securities, other assets of the company, or any combination thereof;
- Definition of Fair Market Value: the board must not have the discretion to interpret the fair market value of the company's shares if the board determines that the value was adversely affected by the news of an anticipated or actual bid or by other means of manipulation;
- Affiliates and Associates: the board's discretion to decide which parties are acting in concert to determine the level of beneficial ownership, which could be used to trigger the pill should be limited and well-defined in the text of the plan;
- Mandatory Waiver: if the board waives the triggering of the pill with respect to one bidder, the board must be required to waive the pill in favor of any subsequent bids, preventing the board from favoring one bid over another regardless of shareholder interests.

D. DEPOSITARY RECEIPTS AND PRIORITY SHARES (THE NETHERLANDS)

Depository receipts are an especially common antitakeover defense among large Dutch companies. In the event of a hostile takeover bid, ordinary voting shares are first issued to a company-friendly trust or foundation. The trust or foundation in turn issues depository receipts, similar to banks in the United States issuing ADRs except that the foundation retains the voting rights of the issued security. The depository receipts carry only the financial rights attached to the shares (i.e., dividends). In this manner, the company gains access to capital while retaining control over voting rights. Nonvoting preference shares can be issued to trusts or foundations in a similar fashion.

Priority shares, established in a company's articles, may be awarded with certain powers of control over the rest of the company. In practice, priority shares are held by members of the supervisory board, company-friendly



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trusts or foundations, or other friendly parties. Depending on the articles, priority shareholders may determine the size of the management or supervisory boards or may propose amendments to articles and the dissolution of the company.

E. FOR ISSUES OF VIII - A THROUGH D

The CRPTF would:

- Vote AGAINST all antitakeover proposals unless they are structured in such a way that they give shareholders the ultimate decision on any proposal or offer.
- Vote AGAINST the adoption of poison pills unless they meet ALL of the criteria outlined in Section VII - C above.
- Vote AGAINST the introduction of depositary receipts and priority shares.

IX. SHAREHOLDER PROPOSALS

Most resolutions fall into three basic categories: corporate governance, social, and environmental. While shareholder proposals in most countries are not as prevalent as they are in the United States, they are becoming more common, and standards for reviewing the various types of proposals are necessary. In general shareholder proposals seen at global companies cover a wide variety of issues, including fundamental corporate governance topics, social issues, direct action proposals, as well as many unique proposals.

Shareholder's proposals are becoming more common in the German market, where there are two types of such proposals-shareholder proposals and counterproposals. Counterproposals are filed in direct opposition to proposals put forward by management at a given shareholder meeting. Many shareholder and counterproposals in Germany focus on environmental and labor issues. The number of shareholder proposals is also on the rise in Canada, although the aggregate annual number still pales in comparison to the U.S

A. CORPORATE GOVERNANCE PROPOSALS

Support for corporate governance proposals must be measured against the likely impact that approval would have on the company's operations. If a measure would improve disclosure of company activities in non-strategic areas and at minimal costs, we support the proposal. If a proposal seeks to



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improve the company's corporate governance structure, such as adopting board committees, eliminating staggered board structures, or canceling anti-takeover instruments, approval is also warranted. However, if acceptance of a proposal is likely to lead to a disruption in board or management operations and to cause the company to incur significant costs without clear benefit we will oppose the proposal.

The CRPTF would:

- Generally vote FOR shareholder social, workforce, and environmental proposals that create good corporate citizens while enhancing long-term shareholder value.
- Generally vote FOR disclosure reports that seek additional information that is not available elsewhere and that is not proprietary, particularly when it appears companies have not adequately addressed shareholders' social, workforce and environmental concerns.
- In determining our vote on shareholder social, workforce --and environmental proposals, we also analyze the following factors:
 - whether adoption of the proposal would have either a positive or negative impact on the company's short-term or long-term share value;
 - the percentage of sales, assets and earnings affected;
 - the degree to which the company's stated position on the issues could affect its reputation or sales, or leave it vulnerable to boycott or selective purchasing;
 - whether the issues presented should be dealt with through government or company-specific action;
 - whether the company has already responded in some appropriate manner to the request embodied in a proposal;
 - whether the company's analysis and voting recommendation to shareholders is persuasive;
 - what other companies have done in response to the issue;
 - whether the proposal itself is well framed and reasonable;
 - whether implementation of the proposal would achieve the objectives sought in the proposal; and



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- whether the subject of the proposal is best left to the discretion of the board.

In general, we support proposals that request the company to furnish information helpful to shareholders in evaluating the company's operations. In order to be able to intelligently monitor their investments shareholders often need information best provided by the company in which they have invested. Requests to report such information merit support. We will evaluate proposals seeking the company to cease taking certain actions that the proponent believes is harmful to society or some segment of society with special attention to the company's legal and ethical obligations, its ability to remain profitable, and potential negative publicity if the company fails to honor the request.

B. SPECIAL POLICY REVIEW AND SHAREHOLDER ADVISORY COMMITTEES

These resolutions propose the establishment of special committees of the board to address broad corporate policy and provide forums for ongoing dialogue on issues including, but not limited to shareholder relations, the environment, occupational health and safety, and executive compensation.

The CRPTF would:

- Vote FOR proposals calling for special policy review and shareholder advisory committees when they appear to offer a potentially effective method for enhancing shareholder value.

ENVIRONMENTAL REPORTING, CODES OF CONDUCT AND THE "CERES PRINCIPLES"

Resolutions calling for environmental reporting and/or adoption of principles that encourage the company to protect the environment and the safety and health of its employees generally merit support.

Evidence suggests that environmentally conscious companies may realize long-term savings by implementing programs to pollute less and conserve resources. In addition, environmentally responsible companies stand to benefit from good public relations and new marketing opportunities. Moreover, environmental reporting provides shareholders with more information may be relevant to their company's financial well being including regulatory compliance, environmental risk management and brand name protection. One formulation of reporting seen in the United States that may be emulated internationally is the CERES Principles, formulated by the Coalition of Environmentally Responsible Economies. CERES require



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signing companies to address environmental issues, including protection of the biosphere, sustainable use of natural resources, reduction and disposal of wastes, energy conservation, and employee and community risk reduction. A signee to the CERES Principles would disclose its efforts in such areas through a standardized report submitted to CERES and made available to the public. Many companies have voluntarily adopted these principles.

The CRPTF would:

- Vote FOR proposals on codes of conduct that improve the company's public image, reduces exposure to liabilities, and establish standards so that environmentally responsible companies and markets are not at a competitive financial disadvantage.
- Vote FOR adoption of reports to shareholders on environmental issues.
- Vote FOR the adoption of the CERES Principles.

“MACBRIDE PRINCIPLES”

These resolutions call for the implementation of the MacBride Principles for operations located in Northern Ireland. They request companies operating abroad to support the equal employment opportunity policies that apply in facilities they operate domestically. State of Connecticut statutes require such a policy of companies in which it is invested. The principles were established to address the sectarian hiring problems between Protestants and Catholics in Northern Ireland. It is well documented that Northern Ireland's Catholic community faces much higher unemployment figures than the Protestant community. In response to this problem, the U.K. government instituted the New Fair Employment Act of 1989 (and subsequent amendments) to address the sectarian hiring problems.

The CRPTF would:

- Vote FOR proposals to support the implementation of the MacBride Principles for operations in Northern Ireland that request companies to abide by equal employment opportunity policies within the legal requirements of the law.

E. CONTRACT SUPPLIER STANDARDS



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These resolutions call for compliance with governmental mandates and corporate policies regarding nondiscrimination, affirmative action, work place safety and health and other basic labor protections.

The CRPTF would generally support proposals that:

- Seek publication of a “Code of Conduct” to the company’s foreign suppliers and licensees, requiring they satisfy all applicable standards and laws protecting employees’ wages, benefits, working conditions, freedom of association, and other rights.
- Request a report summarizing the company’s current practices for enforcement of its Code of Conduct.
- Establish independent monitoring programs in conjunction with local and respected religious and human rights groups to monitor supplier and licensee compliance with the Code of Conduct.
- Create incentives to encourage suppliers to raise standards rather than terminate contracts.
- Implement policies for ongoing wage adjustments, ensuring adequate purchasing power and a sustainable living wage for employees of foreign suppliers and licensees.
- Request public disclosure of contract supplier reviews on a regular basis.
- Adopt labor standards for foreign and domestic suppliers to ensure that the company will not do business with foreign suppliers that manufacture products for sale in the U.S. using forced labor, child labor, or that fail to comply with applicable laws protecting employee’s wages and working conditions.

F. CORPORATE CONDUCT, HUMAN RIGHTS AND LABOR CODES

CRPFT will generally support proposals that call for the adoption and/or enforcement of principles or codes relating to countries in which there are systematic violations of human rights; such as the use of slave, child, or prison labor; a government that is illegitimate; or there is a call by human rights advocates, pro-democracy organizations, or legitimately-elected representatives for economic sanctions. Many times proposals refer to the conventions of the International Labor Organization (ILO). These proposals relate to a series of seven conventions (commonly referred to as the



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“Declaration on Fundamental Principles and Rights at Work”) ratified by the ILO, a tri-partite Non-Governmental Organization dedicated to the protection of workers’ rights. The seven conventions fall under four broad categories: right to organize and bargain collectively, non-discrimination in employment, abolition of forced labor and end of child labor. Each of the 180 member nations of the ILO are bound to respect and promote these rights to the best of their abilities.

The CRPTF would:

- Vote FOR Principles or Codes of Conduct relating to company investment in countries with patterns of human rights abuses (Northern Ireland, Burma, former Soviet Union and China) and that are in accordance with the provisions of the general statutes of Connecticut, Section 3-13, 45a-203 and 45a-541.
- Vote FOR proposals that support implementation and reporting on ILO codes of conduct.
- Vote FOR proposals that support independent monitoring programs in conjunction with local and respected religious and human rights groups to monitor supplier and licensee compliance with Codes.

APPENDIX C
SECTION I
MACBRIDE COMPLIANCE



INVESTMENT POLICY STATEMENT

State of Connecticut Retirement Plans & Trust Funds

MacBRIDE COMPLIANCE POLICY

Adopted by Investment Advisory Council (“IAC”) February 14, 2001

I. OVERVIEW

Connecticut General Statute (“CGS”) Section 313h (the “MacBride Statute”) prohibits the State Treasurer (the “Treasurer”) from investing state funds in companies doing business in Northern Ireland that have not implemented the “MacBride Principles.”

Section 3(k) of the standard form of “Investment Advisor Agreement” (the Contract”) between the investment manager (each an “Investment Manager” and, collectively, “Investment Managers”) and the Treasurer obligates Domestic Equity and Fixed Income Investment Managers to comply with the MacBride Statute.

This policy has been promulgated in order to implement the requirements of the MacBride Statute and to ensure Investment Manager compliance with the Contract. Any previous policies or interpretations of compliance with the MacBride Statute by the Office of the State Treasurer are hereby super ceded by this policy. Failure to comply with this policy shall be a breach of the Contract.

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

II. INVESTMENT MANAGER COMPLIANCE PROCEDURES

A. The MacBride List

1. The Investor Responsibility Research Center (“IRRC”) periodically publishes a list of U.S. publicly traded companies with employees in Northern Ireland. The Office of the State Treasurer will exclusively use the section of this publication entitled “Companies WITHOUT Current MacBride Implementation Agreements” (the “Domestic MacBride List”) to determine whether or not an Investment Manager’s holding of a security in a publicly traded U.S. company is in compliance with this policy.
2. The Domestic MacBride List shall be referred to herein as the “MacBride List.”
3. Investment Managers are responsible for obtaining the MacBride List. For purposes of this policy, the Office of the Treasurer will deem that Investment Managers have the current version of the MacBride List on the first business day of the month following the publication of the MacBride List.

B. Contract Requirement



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1. Investment Managers are required to ensure against new acquisitions of scrutinizes of companies that appear on the MacBride List ("Prohibited Security" or collectively, "Prohibited Securities").
2. Investment Managers must divest the securities of a company held, if and when the security becomes a Prohibited Security.

C. Monitoring and Reporting

1. It is the responsibility of each Investment Manager to develop and maintain adequate procedures to obtain copies of the MacBride List promptly upon publication and to ensure compliance with the MacBride Statute, the Contract and this policy.
2. Investment Managers have a duty to continuously monitor portfolio holdings to identify existing holdings that may be Prohibited Securities.
3. Each Investment Manager shall provide a quarterly statement (the "Manager Report"), signed by an officer of the Investment Manager, to the Office of the Treasurer indicating its status regarding compliance with this policy. The Manager Report shall be provided to the Office of the Treasurer within thirty (30) business days after the end of each quarter. The Manager Report shall:
 - (a) certify that the Investment Manager maintains processes adequate to ensure compliance with the MacBride Statute and this policy;
 - (b) indicate whether or not the Investment Manager is in full compliance with this policy;
 - (c) indicate the existence of any Prohibited Security in its holdings, an explanation for holding such Prohibited Security, and the Investment Manager's plans with respect to divestment and reimbursement in compliance with this policy.
4. The Investment Manager shall fully cooperate with the Office of the Treasurer in carrying out its monitoring and compliance responsibilities.



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D. Divestment and Reimbursement

An Investment Manager is deemed to be aware of a Prohibited Security on the first business day of the month following the publication month of the MacBride List which first lists the company that issued the Prohibited Security. The date by which this policy requires divestment, as outlined below, is referred to herein as the “Divestment Date.”

For purposes of calculating amounts owed to the Connecticut Retirement Plans and Trust Funds (the “CRPTF”), an investment manager’s position in each Prohibited Security shall be treated separately from any and all other positions in Prohibited Securities.

1. The Purchase of the Prohibited Security

- (a) The acquisition of a Prohibited Security shall be a breach of the Contract.
- (b) Notwithstanding the mandatory remedies described below, the Investment Manager shall divest any such Prohibited Security within 30 calendar days of purchase date (the “Divestment Date” for such Prohibited Securities).
- (c) Additionally, remedies associated with this breach of contract shall be at the Investment Manager’s own expense. Accordingly, the Investment Manager will be liable to the CRPTF for the following costs:
 - (1) Acquisition costs (e.g. brokerage and other costs incurred to acquire the Prohibited Security).
 - (2) Disposition costs (e.g. brokerage and other costs incurred to sell the Prohibited Security).
 - (3) Realized losses, if any, based on purchase costs and the amount realized upon disposition of the Prohibited Security.
 - (4) Lost opportunity cost resulting from the misuse of funds to purchase and hold Prohibited securities. Lost opportunity cost shall be calculated as follows, and in accordance with custodial data:

Lost opportunity cost is determined by (A) dividing the Sale Price by the Purchase Price of the security and (B) dividing the advisor’s benchmark as of



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the date of the sale of the security by the benchmark as of the date of the purchase of the security. The resulting amounts represent the percentage change. The Benchmark Percentage Change is divided by the Security Percentage Change, which derives the Ratio of difference between the Benchmark and Security. If the Ratio is greater than 1.0, then opportunity cost apply. The final opportunity cost is, therefore, the excess ratio above 1.0 (Penalty) multiplied by the Beginning Cost Value of the Security. (See Exhibit A for an example).

These calculations shall apply separately and individually in the case of multiple security holdings, as well as, for securities purchased on differing dates.

E. Treasurer's Discretion to Extend Divestment Date

1. Extension of the required time to divest may be made at the sole discretion of the Treasurer. Any extension will be based on fiduciary considerations. Circumstances which could give rise to such concerns may include, but are not limited to the (i) 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.

F. Calculations

1. The Investment Manager shall prepare all calculations required to determine the amount of the reimbursements. Such calculations shall be forwarded to the Office of the Treasurer within thirty (30) calendar days of disposition of the Prohibited Security for acceptance and approval. The Investment Manager shall make all payments within thirty (30) calendar days after written notice of acceptance and approval shall be received.¹



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III. TREASURER'S RIGHT TO TERMINATE CONTACT

- A. 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 Section II.D above, the Investment Manager is still obligated to compensate the CRPTF for any amounts owed pursuant to Section II.D hereof.
- B. Failure to terminate the Contact for any breach shall not constitute a waiver of future breaches.

	Security Name	Shares Held	Purchase Price \$	Beginning Cost Value \$	Sale Price \$	% Change	Opportunity Cost
Security	XYZ	10,000.00	9.00	90,000.00	11.00	1.2222	
Benchmark	S&P 500		900.00		1,135.00	1.2611	1.0318182
	Opportunity Cost			\$2,863.64			

¹ All calculations and payments must be submitted to the Office of the State Treasurer, State of Connecticut, Pension Fund Management Division, and Attention: Chief Investment Officer, 55 Elm Street, Hartford, CT 06106.

APPENDIX C
SECTION II
DIVERSITY PRINCIPLES



INVESTMENT POLICY STATEMENT

State of Connecticut Retirement Plans & Trust Funds

CONNECTICUT RETIREMENT PLANS AND TRUST FUNDS **DIVERSITY PRINCIPLES**

Adopted by the Investment Advisory Council in April, 2006

The Investment Policy Statement, adopted by the Investment Advisory Council in March 2002, sets forth the Treasurer's Policy on Vendors and Contractors as Corporate Citizens¹⁶. The rationale for this policy has only grown stronger over the three-and-one-half years since its adoption as part of the Investment Policy Statement. In an effort to continue to meet the retirement requirements of present and future beneficiaries, the State of Connecticut Retirement Plans and Trust Funds ("CRPTF") have inherent long-term interests in the success of robust, steadily growing securities markets in the United States and throughout the world.

The globalization of business, coupled with the world-wide economy's rapidly changing demographics, continues to create opportunities for those who can access untapped or under-exploited business opportunities. Changing demographics are of particular importance in the financial services industry, which has a long history of operating in a 'relationship' arena where professionals tend primarily to do business exclusively with those people and entities they already know. Recognizing the benefits that diversity offers for the global business community, it is clear that individuals or firms in the financial services industry that develop a broader circle of people or entities with which they do business will have broader access to legitimate and lucrative business and investment opportunities, and the greatest probability of future success. Conversely, as local, regional, national and global demographics change, individuals and firms that operate in limited circles will likely fall farther behind. Therefore, it is in the CRPTF's long-term interest to seek increased diversity¹⁷ among its vendors in a manner similar to the way in which it seeks the diversification of its portfolio assets in a manner consistent with its fiduciary responsibility.

¹⁶ *Treasurer's Policy on Vendors and Contractors as Corporate Citizens*
(from Investment Policy Statement, Part I, Article XII, Section B)

The CRPTF requires a wide array of banking, asset management and consultative services, and the Treasurer seeks to do business with financial service providers that demonstrate evidence of corporate citizenship. Some of the key considerations include a commitment to Connecticut through the hiring of Connecticut employees or the procurement of corporate goods and services from Connecticut-based firms. Other considerations include reinvestment in local communities, the extent of charitable giving and opportunities for students through scholarships or internships. The Treasurer will also consider the employment practices including the firm's hiring, promotion, and training of women and minority employees as well as general employee relations. Other concerns include the firm's policies on environmental compliance and consumer protections.

¹⁷ As used herein, the term "diversity" encompasses efforts to expand opportunity to persons protected under state laws which bar discrimination in state contracting based on race, color, religious creed, age, marital status, national origin, ancestry, gender, mental retardation, physical disability and sexual orientation, but also to Connecticut-based firms, and to emerging firms which have been in business less than five (5) years.



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In addition, for many years, government has had in place laws and policies that promote diversity in its own workplace. Treasurer Nappier has implemented a number of initiatives to expand opportunities for greater access to the CRPTF's business. Most notable among these efforts are the Domestic Equity Brokerage Program and the historic launch of the Connecticut Horizon Fund, a fund of fund opening access to business in the domestic and international equity and fixed income investment arenas, as a start. It is a natural and logical progression in these policies for CRPTF, as a customer and business partner, to ensure that its vendors are similarly committed to workforce diversity and are representative of the diversity of the community CRPTF serves.

Finally, the financial services industry continues to undergo organic changes that have had a dramatic impact on the employment in Connecticut. Consideration of emerging and Connecticut-based businesses and Connecticut-based business opportunities will enhance the development of the next generation of financial services professionals and businesses and increase the potential for such businesses to develop in the state of Connecticut.

Therefore, the Office of the State Treasurer and the Investment Advisory Council (the "IAC") reaffirm their commitment to seek opportunities to enhance vendor diversity for the benefit of the CRPTF. In recognition of the ongoing diversity objectives established and advanced by Denise L. Nappier, Treasurer of the State of Connecticut ("the State"), and in recognition of the leadership shown by former IAC member and former State Treasurer Henry Parker, the IAC hereby endorses the following statement of principles and action steps (the "Connecticut Retirement Plans and Trust Funds Diversity Principles"), advancing the fundamental conviction that the firms with which the Office of the Treasurer does business should reflect the increasingly diverse cultures, backgrounds and traditions of the people that it serves.

VENDOR DIVERSITY IN THE WORKFORCE/PROCUREMENT OF SERVICES

STATEMENT OF PRINCIPLES

1. By establishing relationships with firms having diverse owners and workforces, the CRPTF will have the broadest exposure to business opportunities that will provide solid investment returns.
2. Companies and firms that demonstrate a commitment to diversity are most likely to succeed in an increasingly global marketplace.
3. Consideration of emerging and Connecticut-based businesses and Connecticut-based business opportunities will enhance the development of the next generation of financial services professionals and businesses and increase the potential for such businesses to develop in the state of Connecticut.



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PROTOCOL

1. Financial services firms that wish to do business with the Connecticut State Treasurer's Office shall, at the time of contracting, have in place or agree to adopt written policies that promote diversity in the workforce. Such policies shall demonstrate the firm's commitment to workforce diversity in its policies on recruitment, hiring, training, promotion and retention, and shall recognize diversity as an enduring commitment, requiring ongoing efforts by the firm and periodic assessments of their progress.
2. Financial services firms that wish to do business with the Connecticut State Treasurer's Office must disclose their firm's workforce diversity statistics in a form prescribed by the State Treasurer during the RFP or search process. Workforce diversity shall be considered by the Treasurer when making her decision to recommend a firm to the IAC, and the Treasurer's recommendation shall include her analysis and conclusions regarding the diversity profile of each firm recommended.
3. In addition to workforce diversity, the Treasurer shall consider a firm's commitment to diversity principles in its procurement policies and practices; as well as the firm's commitment to the communities it serves.
 - a) Procurement policies and practices should address the development of a diverse supplier network by the firm to meet the firm's procurement needs.
 - b) A firm may show its commitment to its community by support of charitable organizations, scholarship programs and the like that promote opportunities to advance diversity.
4. To enable the Office of the State Treasurer to monitor and evaluate the efforts of firms in promoting and expanding diversity, financial services firms that enter into contracts with the Connecticut State Treasurer's Office shall agree to provide reports on their ongoing activities relating to diversity on a periodic basis upon request. In such report, firms may be asked to address any or all of the following components:
 - a) A workforce diversity report, which, in addition to statistics on the gender and ethnic diversity of the workforce, shall provide data on hiring and promotion activity;
 - b) A supplier diversity report, which shall provide information on the number of minority-owned, women-owned, Connecticut-based and emerging suppliers with which the firm has a business relationship and the value of the business conducted with such suppliers;



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- c) A report on the composition of its Board of Directors, including any changes made since the previous report;
 - d) An outline or description of the firm's efforts to support the communities it serves, and
 - e) A narrative description of activities undertaken by the firm in support of their commitment to diversity. Such narrative may describe organizations which the firm has joined in furtherance of its efforts to broaden the diversity of its hiring pool, internal efforts to retain and promote diverse employees, diversity training provided to senior management, relationships developed to expand the diversity of its supplier base, and any other efforts that promote diversity in the firm's workforce and supplier network.
5. The Connecticut State Treasurer's Office shall review and evaluate information provided by firms relating to diversity. The firm's progress in promoting diversity shall be a component of the firm's periodic performance evaluation.
6. The Treasurer shall provide periodic reports to the IAC regarding the diversity of firms doing business with the CRPTF.

VENDOR DIVERSITY AT THE OWNERSHIP AND/OR CONTROL LEVEL

SPECIAL INITIATIVES

DOMESTIC EQUITY BROKERAGE PROGRAM

The Office of the State Treasurer seeks to ensure that a wider array of broker-dealers has an opportunity to provide services to the Connecticut Retirement Plans and Trust Funds ("CRPTF"). As principal fiduciary of the CRPTF, the State Treasurer encourages providers of investment advisory services to utilize Connecticut-based, minority, women and emerging broker-dealers in trading of CRPTF's securities.

Specific targets for managers of the CRPTF's domestic equities for the procurement of brokerage services from diverse firms include 30% of securities trading brokerage commissions to Connecticut-based broker dealers; 25% of securities trading brokerage commissions to minority broker-dealers and/or women broker-dealers; and 5% of securities trading brokerage commissions to emerging broker-dealers.

THE CONNECTICUT HORIZON FUND

The Connecticut Horizon fund is designed to provide the investment program of the Connecticut Retirement Plans & Trusts with additional alpha through active management



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plus provide opportunity for investment managers who, for multiple reasons, would not typically have full access to the CRPTF.

It is the expressed intent of the CRPTF to afford opportunities for emerging, minority and women-owned and Connecticut-based investment managers to compete for investment contracts so long as such managers are fully capable of providing investment management services consistent with investment strategy and fiduciary standards.

In addition to minority owned firms, woman owned firms, Connecticut based firms, and small firms with assets less than \$2 billion, the Treasurer will also include new innovative investment strategies which are being incubated at all types of firms. In this way, the opportunity to enhance portfolio returns is greater and the spirit of nurturing the next generation of investment managers is expanded to include the next generation of investment ideas.