

**INVESTMENT POLICY STATEMENT**  
State of Connecticut Retirement Plans & Trust Funds

**INVESTMENT POLICY STATEMENT**

**FOR THE**

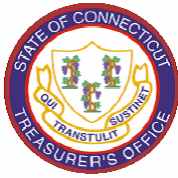
**STATE OF CONNECTICUT**

**RETIREMENT PLANS & TRUST FUNDS**



**DENISE L. NAPIER**  
**TREASURER OF THE STATE OF CONNECTICUT**

Adopted ~~March 13, 2002~~ \_\_\_\_\_



# INVESTMENT POLICY STATEMENT

## State of Connecticut Retirement Plans & Trust Funds

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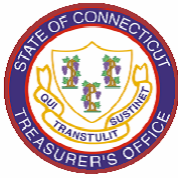
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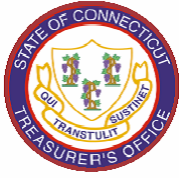
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# INVESTMENT POLICY STATEMENT

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### PART I – TREASURER OVERVIEW

#### Article I. Introduction

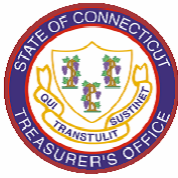
A. This ~~policy~~Investment Policy Statement (“IPS”) sets forth the general principles that govern the ~~investment~~investments of the State of Connecticut ~~Retirement Plans & Trust Funds (“CRPTF”)~~retirement plans and trust funds as established by the Treasurer of the State of Connecticut (“the Treasurer”), and as approved by the Investment Advisory Council (“IAC”), in accordance with the provisions of subsection ~~f(c)~~ of Section 3-13b of the Connecticut General Statutes. ~~The CRPTF holds assets on behalf of~~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 ~~Court~~Judges and Employees Retirement Fund,
5. ~~Judges’~~State Judge’s Retirement Fund,
6. State’s Attorneys’ Retirement Fund,
7. Soldiers’ Sailors’ & Marines’ Fund,
8. Arts Endowment ~~for the Arts~~Fund,
9. Agricultural College Fund,
10. Ida Eaton Cotton Fund,
11. Andrew C. Clark Fund,
12. School Fund,
13. Hopemead Fund, and
14. Police ~~& Fireman’s~~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 fund:

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 ~~Investment Policy Statement (“IPS”)~~policy statement is an outline of each of the CRPTF’s long-term strategic ~~plan plans~~ based on ~~the~~ analysis of the capital markets and the ~~CRPTF’s~~ financial condition of each plan and trust of the CRPTF.



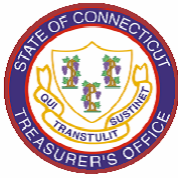
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In formulating this policy statement, the Treasurer has sought to allow for sufficient flexibility to capture investment opportunities as they occur, while maintaining reasonable parameters to ensure that prudence and care are exercised in the execution of the CRPTF investment program. In the final analysis, the Treasurer must exercise ~~her~~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 ~~her~~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 ~~system~~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 ~~system~~<sup>+</sup>the CRPTF<sup>2</sup>; 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 ~~care~~investment and custody of all CRPTF assets, ~~the investment of the assets of the CRPTF~~, and the selection of and contracting with all ~~investment advisors~~money managers, investment managers and professional consultants. Unless waived by a vote of the IAC, the IAC, however, has up to 45 days to review and comment ~~upon~~ any proposed contract for investment services prior to the Treasurer’s execution of a contract ~~by the Treasurer~~. 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

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<sup>1</sup>~~Uniform Management of Public Employee Retirement Systems Act, Section 7 (1997).~~

<sup>2</sup>Uniform Management of Public Employee Retirement Systems Act, Section 7 (1997).



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status of the asset allocation plan for the CRPTF, and shall report at each IAC meeting ~~of the IAC~~ as to the status of the CRPTF investments ~~of the CRPTF~~.

C. In ~~addition~~ 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~~ Changes in investment policies, asset allocation, and asset allocation ranges;
- 2. ~~the~~ The inclusion of new asset classes in the investment policy;
- 3. ~~the~~ The development and implementation of new investment strategies; and
- 4. ~~the~~ The development of investment guidelines for each asset class.

~~The Treasurer may retain investment advisors (investment professional consultants) to assist in the management of the CRPTF and, in so doing, has the obligation to exercise prudence and care in selecting, instructing and supervising such consultants. As used in this IPS, “investment advisors” or “investment professional consultants” means external money managers, investment consultants, custodians, brokers, legal counsel, and other 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 investment advisors, the Treasurer will present a recommendation(s) to the IAC for its consideration. After such presentation, 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 a contract by the Treasurer.~~

D. With regard to any proposed change, inclusion of, or development of, the items listed above, the following process shall be followed:

~~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 “Private Equity” and “Real Estate” asset classes until such time that a duly elected Treasurer is officially sworn into office.~~

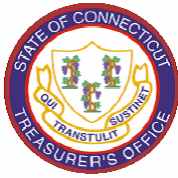
1. The proposed plan changes and recommendation will be presented by the Treasurer at a regularly scheduled IAC meeting.
2. Consideration for approval shall be taken up at the next following regularly scheduled IAC meeting.
3. The Treasurer’s recommendation shall be deemed approved if it receives a majority 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.





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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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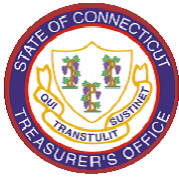
### Article III. Investment Objectives

A. ~~The primary objective of the CRPTF is to provide a secure source of retirement income for beneficiaries of the covered plans mentioned in Article I, paragraph 1. 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 principles ~~of capital market theory,~~ which maintains that over the long-term, prudent investment risk-taking ~~is~~ 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.

~~The overall return of the CRPTF is measured against the total fund benchmark, a hybrid benchmark customized to reflect the CRPTF’s asset allocation and performance objectives. This benchmark is comprised of 36% Russell 3000 Index; 18% International Stock Fund benchmark; 29% Mutual Fixed Income benchmark; 5% NCREIF Property Index; 11% Connecticut Private Equity/Venture Capital Index; and 1% Donoghue Money Fund Average. The International Stock Fund benchmark is comprised of 83% Salomon Smith Barney EPAC Broad Market 50% Hedged Index, and 17% MSCI Emerging Markets Free Index. The Mutual Fixed Income benchmark consists of 73% Lehman Brothers Aggregate Index, 17% Salomon High Yield Market Index, and 10% JPM Emerging Markets Bond Index. The Connecticut Private Equity/Venture Capital Index is made up of 50% Cambridge Associates Private Equity Index and 50% Cambridge Associates Venture Capital Index.~~

~~The investment objectives for the plans and trusts fully invested in all asset classes of the Combined Investment Fund are as follows:~~

- ~~• A nominal rate of return equal to or greater than the actuarially assumed investment return of 8.5% over the length of a market cycle (generally, a three to five year period);~~
- ~~• Achieving a real rate of return of 550 basis points over and above inflation as measured by the Consumer Price Index;~~
- ~~• Realizing returns consistent with or in excess of specific market benchmarks over the length of a market cycle at the individual asset class level; and~~
- ~~• Maximizing returns in order to minimize long term contributions within reasonable and prudent levels of risk to the extent investment results can so impact contribution levels.~~



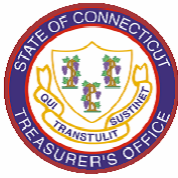
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~~Note: As noted in Part II, some of the plans and trusts have investment limitations placed upon them and therefore the specific investment objectives related to any restricted plan or trust will be so noted.~~

~~While there cannot be complete assurance that these objectives will be achieved, the probability of their realization is reasonably high based upon this IPS and expected performance of the asset classes discussed in Article V. The objectives address assets and liabilities, and are based on a long-term horizon. It is important to remember that interim fluctuations should be viewed with this perspective.~~



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#### Article IV. Asset Allocation

A. The ~~CRPTF's~~ 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 ~~a fund's~~ 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 ~~where-in which~~ the particular pension or trust fund's liability characteristics are considered ~~when developing the fund's asset allocation policy~~.

C. ~~The following examination forms the rationale for the level of exposure to each asset class category for the various pension plans and trusts:—~~ A broad array of asset classes ~~are-is~~ considered for inclusion in a potential asset allocation structure~~mixes~~. 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. ~~Several alternative asset mixes are selected for further analysis, in—~~ 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.

~~Table 1 outlines asset class targets and permissible ranges for the allocation of assets for Connecticut State Employees Retirement Fund (“SERF”), the Teachers’ Retirement Fund (“TERF”), and the Municipal Employees’ Retirement Fund (“MERF”), as adopted by the Treasurer in consultation with the IAC. The targets were established as part of a comprehensive study of the CRPTF’s assets and liabilities adopted in August 1999, and reaffirmed in January 2001. (As detailed in Part II of this IPS, the asset allocation policy of each of the pension plans and trusts will vary depending upon particular statutory or other limitations.) The ranges are intended to serve as boundaries for the CRPTF’s individual asset classes as more particularly described in Article V of this Part. The ranges were established based on the relative volatility, transaction costs, and targets of the various asset classes. The allocation policy and relative ranges for the SERF, TERF and MERF, as presented below, represent, in aggregate, more than 99% of the total liabilities of CRPTF and are identical to a significant portion of the other pension plans and trusts.~~



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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.

~~The adoption of these targets and ranges will provide an appropriate mechanism for maintaining the integrity of the asset allocation policy.~~

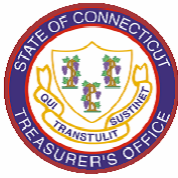
**Table # 1**

#### **State of Connecticut and TERF, SERF, MERF Asset Allocation Policy and Relative Ranges**

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Lower Bound</b>	<b>Upper Bound</b>
<b><i>Mutual Equity Fund (U.S. Equity)</i></b>	<b><i>36%</i></b>	<b><i>29%</i></b>	<b><i>43%</i></b>
<b><i>International Stock Fund</i></b>	<b><i>18%</i></b>	<b><i>14%</i></b>	<b><i>22%</i></b>
——— Developed Markets Equity	15%	12%	18%
——— Emerging Markets Equity	3%	2%	4%
<b><i>Mutual Fixed Income Fund</i></b>	<b><i>29%</i></b>	<b><i>25%</i></b>	<b><i>33%</i></b>
——— Core Fixed Income	20%	18%	22%
——— Inflation Linked Bonds	1%	1%	1%
——— High Yield	5%	4%	6%
——— Emerging Market Debt	3%	2%	4%
<b><i>Real Estate Fund</i></b>	<b><i>5%</i></b>	<b><i>4%</i></b>	<b><i>6%</i></b>
<b><i>Private Investment Fund</i></b>	<b><i>11%</i></b>	<b><i>6%</i></b>	<b><i>11%</i></b>
<b><i>CRA (Cash</i></b>	<b><i>1%</i></b>	<b><i>1%</i></b>	<b><i>1%</i></b>
	<b><i>100%</i></b>		

~~Note: Publicly listed common stock investments including U.S. equity, non-U.S. developed markets equity, and emerging markets equity are subject to a statutory limit of 60% of the CRPTF's total portfolio.~~

~~Changes in long-term asset allocation targets are expected to occur infrequently. Revisions of these targets will be proposed only when it is clear that significant~~



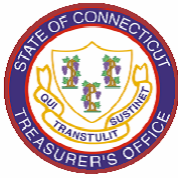
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~~changes have occurred in the demographics of the participant group and/or in the capital markets such that assumptions upon which the present allocations have been made no longer appear reasonable. Any material changes necessary would be pursuant to the findings of a periodic asset/liability study of the CRPTF, as determined by the Treasurer in consultation with the IAC. Accordingly, the CRPTF managers should pursue a strategy of being fully invested in the market consistent with the foregoing guidelines and individual management contracts to ensure that cash-equivalent positions do not interfere with the asset allocation strategy. In addition, in order to meet the CRPTF's liquidity needs, the Treasurer may direct that dividends and interest income from the investment managers' accounts be swept into a cash reserve 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

~~Broad definitions of the asset classes outlined in Article IV are as follows. More detailed~~

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.

#### ~~A. Equities~~

- ~~1. Mutual Equity Fund (U.S. Equities): Investments in U.S. equities are defined as commitments to U.S. dollar-denominated, publicly traded common stocks of U.S. domiciled companies and securities convertible into common stock. The aggregate U.S. equity portfolio (“Mutual Equity Fund”) is expected to exhibit characteristics comparable to, but not necessarily equal to, that of the Russell 3000 index.~~
- ~~2. International Stock Fund: Investments in non-U.S. equities are defined as commitments to publicly traded common stocks and securities convertible into common stock issued by companies domiciled outside the U.S. Developed market equity is issued by companies domiciled in developed~~



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economies, as defined by The World Bank and included in the Salomon Smith Barney EPAC Broad Market Index (“SSB EPAC BMI”). Emerging market equity is issued by companies domiciled in developing economies as defined by The World Bank and included in the Morgan Stanley Capital International Emerging Markets Free Index (“MSCI EMF Index”). The aggregate International Stock Fund portfolio is expected to exhibit characteristics comparable to, but not necessarily equal to, that of a hybrid index comprised of 83% SSB EPAC BMI (half hedged) Index and 17% MSCI EMF Index.

~~**B. Mutual Fixed Income Fund:** Fixed income investments are defined as marketable securities, which may include, but are not necessarily limited to, U.S. Treasury, federal agency, U.S. Government guaranteed obligations, “quasi-Government” agencies and corporate issues (including convertibles). Mortgage pass-through securities, collateralized debt obligations, non-dollar denominated bonds and group annuity contracts may also be held in this fund. The overall average quality rating of this fund’s domestic and international fixed income portfolio will be at least “A” rated by Standard & Poor’s or Moody’s. The Mutual Fixed Income Fund, in aggregate, shall have characteristics similar to, but not necessarily equal to, the hybrid benchmark consisting of 70% Lehman Brothers Aggregate Bond Index, 3% Lehman Brothers Inflation-Linked Bond Index, 17% Merrill Lynch High Yield Index, and 10% JP Morgan Emerging Market Bond Plus Index. The following represents definitions of the various component parts of the Mutual Fixed Income Fund:~~

- ~~1. **Core Fixed Income** are debt instruments issued by the U.S. Government and its agencies, “quasi-Government” agencies, U.S. corporations, Euro bonds and any other public or private U.S. regulated debt security. Domestic Bonds in aggregate shall have characteristics similar to, but not necessarily equal to, the Lehman Brothers Aggregate Bond Index.~~
- ~~2. **Inflation-Linked Bonds (“ILBs”)** are bonds that provide a real return above inflation that is fixed. First issued by the U.S. Treasury in January 1997, ILBs pay semi-annual coupons that account for the real return while the inflation component of the return accrues to the bonds principal every year. Inflation-linked bonds in aggregate shall have characteristics similar to, but not necessarily equal to, the Lehman Brothers Inflation-Linked Bond Index.~~
- ~~3. **High Yield Bonds** are defined as debt instruments rated below “BBB” by Standard & Poor’s or “Baa3” by Moody’s Investor Service. In aggregate, the high yield bond portfolio should have characteristics similar to but not necessarily~~





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~~equal to, the Merrill Lynch High Yield Index or other equivalent benchmark as determined by the Treasurer.~~

4. ~~**Emerging Market Debt**~~ represents bonds issued by government and companies operating in developing countries as defined by The World Bank. ~~Emerging Market Debt holdings in aggregate should have characteristics similar to, but not necessarily equal to, the J.P. Morgan Emerging Markets Bonds Plus Index.~~

~~C. **Cash Reserve Account (Cash Equivalents):** The cash reserve account shall consist of cash instruments generally maturing in less than one year and having a quality rating, by at least one widely recognized rating agency, of A-1 or P-1. In aggregate, the Cash Reserve Account should have characteristics similar to, but not necessarily equal to, the International Business Communications (“IBC”) First Tier Institutions Only Rated Money Fund Report Index.~~

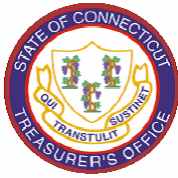
#### C. Other Asset Classes~~Illiquid Portfolios~~

- ~~1. **1.**~~ Real Estate Fund: Real Estate investments are defined as indirect<sup>3</sup> 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”). ~~Real Estate holdings, taken together, should have characteristics similar to, but not necessarily equal to, the National Council of Real Estate Investment Fiduciaries Property Index (“NCREIFP Index”). A portion of this benchmark may be attributed to~~

~~National Association Real Estate Investment Trust, if REITs become a significant component of the Real Estate Fund.~~

- ~~1.2.~~ Private Investment Fund: Private investments will be in externally managed separate accounts, limited liability companies or limited partnerships, which focus on private equity investments. Private equity investments ~~include:~~include corporate finance and venture capital.
- ~~a. venture capital funds focusing on start-up, early and expansion stage companies;~~
  - ~~b. mezzanine funds investing in equity and debt instruments of established companies;~~
  - ~~c. buy-out and acquisition funds which make controlling and non-controlling investments in established companies; and~~

<sup>3</sup> 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.



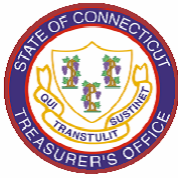
## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

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~~d. special situation funds, as defined in Part III of this IPS.~~

- ~~3. Commercial Mortgage Fund: These are indirect investments in mortgages backed by commercial real estate. Such investments may take the form of trusts or securities. These holdings are expected to earn a rate of return in excess of the Lehman Brothers Aggregate Bond Index (“LBA Index”), sufficient to justify the corresponding risk premium. This asset category 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.~~
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.



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART I – TREASURER OVERVIEW

#### Article VI. Use of Derivatives

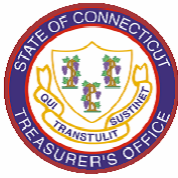
~~Note: The following guidelines were approved by the IAC on December 10, 2003 and adopted by the Treasurer on December 10, 2003.~~

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.

~~Derivative instruments may be used for any of the purposes listed below. 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.~~

- ~~1.~~ 1. ~~Market Exposure:~~ To gain broad stock or bond market exposure in a manner that does not create the effect of leverage in the overall portfolio.
- ~~2.~~ 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 ~~the~~such ~~money~~ manager's portfolio. There shall be no foreign currency speculation or any related investment activity, ~~with the exception of~~ except by currency hedging managers, who will be guided by specific risk parameters in their contracts.
- ~~3.~~ 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.~~ 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 Fund portfolio.
- ~~5.~~ 5. For trading purposes ~~which are~~ intended to enhance investment returns. ~~This purpose is,~~ subject to the requirement that ~~it be consistent with the~~ other elements of the CRPTF's investment policies and guidelines ~~and that it does not systematically are met and there is no systematic increase in the risk or the risk or~~ expected volatility of the rate-of-return of the total Fund portfolio.

B. All other uses of derivatives are prohibited unless specifically approved by the Treasurer, and reviewed-endorsed by the IAC. Investment-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.



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART I – TREASURER OVERVIEW

#### 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 3-13d<sup>4,5</sup>, Section 3-13g<sup>6,7</sup>, Section 3-13h<sup>8,9</sup> and Section 3-21e<sup>10</sup>, 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 ~~of investments in~~for each ~~fund~~Fund.

<sup>4</sup> ~~Consideration of political implications of particular investments in relation to U.S. foreign policy and national interests.~~

<sup>5</sup> ~~Pertaining to the consideration of political implications of particular investments in relation to U.S. foreign policy and national interests.~~

<sup>6</sup> ~~Investments in corporations doing business in Iran.~~

<sup>7</sup> ~~Pertaining to the investments in corporations doing business in Iran.~~

<sup>8</sup> ~~Disinvestment of State funds invested in corporations doing business in Northern Ireland, which have not implemented the MacBride principles.~~

<sup>9</sup> ~~Pertaining to the divestment of State funds invested in corporations doing business in Northern Ireland that have not implemented the "MacBride" principles.~~

<sup>10</sup> ~~Pertaining to Divestment of state funds invested in companies doing business in Sudan.~~



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART I – TREASURER OVERVIEW

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

A. The Treasurer will prudently select ~~investment money managers, investment managers and professional consultants providers of other investment-related services (collectively, “investment advisors”)~~ based on their respective expertise relative to the investment mandate they seek to fulfill or the investment service they seek to provide. ~~The due diligence process, which includes specific guidelines and criteria for the selection of investment managers, is addressed within each specific asset category in Part III of this IPS.~~

B. In general, the selection ~~of investment advisors~~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 ~~competing~~ 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 ~~CRPTF’s 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 advisor’s~~ capabilities, organization, track record, ~~public fund client~~institutional expertise, and investment philosophy (where relevant).

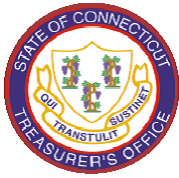
3. A consideration of the firm’s diversity policies and practices, corporate responsibility and citizenship.

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.

~~Any potential investment advisor will be required to disclose any third party fees paid, as defined in Section 3-13j of the Connecticut General Statutes.~~

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. ~~Before the retention of any investment manager, or provider of investment related services, the Treasurer will present a recommendation(s) to the IAC for their consideration. After such presentation, the IAC will have up to 45 days to review and comment upon any proposed contract for investment management services~~

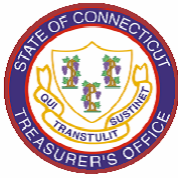


## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

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~~prior to the execution of a contract by the Treasurer~~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.



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART I – TREASURER OVERVIEW

#### Article IX. ~~Investment~~ 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

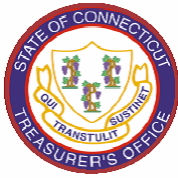
1. Size of Portfolio – to minimize investment fees, portfolios (regardless of asset class) will generally be a minimum of \$100 million and should not constitute more than 20% of the money manager's assets under management, provided that the Treasurer acting in consultation with the IAC may develop programs intended to encourage the development of ~~investment-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).

~~The Treasurer will ensure that the CRPTF's assets include cash reserves sufficient to pay benefit obligations and Fund expenses. Investment 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. 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.~~

#### C. Illiquid Portfolios

~~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. The Treasurer, in consultation with the IAC, may develop specific programs within the several asset classes, to effectuate this opportunity.~~

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



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

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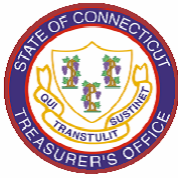
size of the investment shall take into consideration the terms and conditions of the overall investment opportunity. Use of multiple investment managers and styles within each of these portfolios is expected to increase diversification and reduce risk.

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.

#### 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.





## INVESTMENT POLICY STATEMENT

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#### PART I – TREASURER OVERVIEW

#### Article X. Liquidity

A. Based on such factors as investment strategy, cash flow and benefit payments, the Treasurer ~~expects that will determine~~ the ~~1%~~appropriate allocation to cash equivalents in ~~addition to the investment income should be sufficient order~~ to meet the pension plans and ~~trusts'~~trust funds' liquidity needs in the near term. Liquidity requirements ~~of the fund~~ will be reviewed regularly to ensure that each of the CRPTF's policies and practices ~~will~~are structured so as to accommodate ~~its~~ changing liquidity needs.



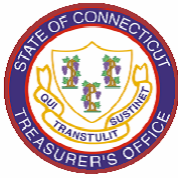
## INVESTMENT POLICY STATEMENT

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#### PART I – TREASURER OVERVIEW

#### Article XI. Performance Evaluation

- A. The Treasurer shall regularly monitor ~~the~~ investment performance ~~of the CRPTF~~ at the ~~total fund plan and trust level~~, asset class, and individual money and investment manager levels. The Treasurer will analyze ~~the CRPTF's overall~~ 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 ~~the investment~~ performance ~~of the CRPTF and each individual manager~~ will be prepared quarterly and submitted to the Treasurer for review and shall be reported to the IAC. ~~It is expected that t~~The CRPTF's custodian will confirm or reconcile its performance data with the investment money and investment managers ~~of the CRPTF~~. 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 ~~cooperatively~~ by the ~~CRPTF Treasurer or her designees~~ and the money or investment manager and incorporated into the investment management contract executed by between the Treasurer and ~~the 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 ~~fund~~ performance. Money and investment Managers will make presentations before the IAC, as ~~requested by the Council~~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 ~~a the Treasurer's~~ "Watch List." ~~The Any of the~~ following conditions can trigger placement on the Watch List:
1. The money or investment manager significantly under-performs its benchmark ~~for three consecutive quarters~~;
  2. The money or investment manager experiences turnover of key members of ~~the 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.

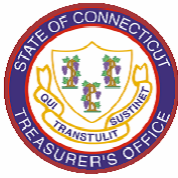


## INVESTMENT POLICY STATEMENT

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- D. Once ~~an investment~~ 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 ~~of the Treasurer,~~ 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~~ Watch List," and thereafter shall report ~~at each subsequent meeting of quarterly to~~ the IAC on the status of the issues that led to placement of ~~the such money or investment~~ manager on the "~~watch~~ Watch List" or any action taken related to the money or investment manager by the Treasurer.



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART I – TREASURER OVERVIEW

#### 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.”<sup>11</sup> Corporate citizenship is an important criterion in the evaluation of companies, in which the CRPTF-Treasurer invests ~~in~~, as well as the companies with which the CRPTF-Treasurer contracts ~~with~~ to provide business services ~~for the operation of the fund~~.

#### A.B. ~~CRPTF~~ Investments and Corporate Citizenship

1. Investments made or handled by the CRPTF-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 ~~complimentary~~ 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 ~~the~~ plan participants and beneficiaries. ~~Prudence~~ Prudent investment includes considerations of performance, risk and return. In addition ~~to prudence~~, 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 ~~on-in relation to the~~ foreign ~~policies~~ policy and the national interests of the United States. ~~Specifically, the~~ Additionally, Sections 3-13(g) and 3-13(h) of the statutes 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

<sup>11</sup> Investor Responsibility Research Center, Washington, D.C.



## INVESTMENT POLICY STATEMENT

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future modifications and revisions of the Connecticut General Statutes into the investment process to ensure compliance.

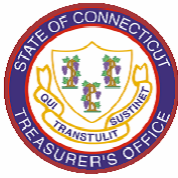
#### **B. Treasurer's Policy on Vendors and Contractors as Corporate Citizens**

#### **C. CRPTF Diversity Principles**

1. The CRPTF ~~requires~~ require a wide array of banking, ~~asset~~ 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 ~~the~~ a firm's employment practices including ~~the firm's~~ its hiring, promotion, and training of women and minority employees as well as general employee relations. Other concerns include ~~the~~ 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.

#### **C.D. CRPTF Policy on Proxy Voting**

1. Shareholder activity is among the fiduciary duties of the Treasurer ~~in her role~~ as trustee of the CRPTF ~~assets of the CRPTF~~. 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



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considered appropriate when investments are expected to be held on a long-term basis.

3. The Treasurer has developed ~~proxy-proxy~~-voting guidelines, which ~~are included as an appendix~~can be found in Appendix "B" -to this IPS. Any delegation of proxy voting by the Treasurer, either to external ~~investment money~~ managers or to a proxy voting service shall be consistent with ~~the any~~such guidelines developed.



## INVESTMENT POLICY STATEMENT

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#### PART I – TREASURER OVERVIEW

#### 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 ~~investment policy~~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 ~~the plans'~~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. ~~It This IPS~~ is not expected ~~that this IPS will to~~ change frequently. In particular, short-term changes in the financial markets deemed to be temporary in nature should not require any ~~adjustment to this policy~~formal adjustments to the IPS.
- E. Review of ~~Investment 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. ~~Investment 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 ~~a 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 ~~no less often than quarterly~~monthly.
- G. Performance reviews will generally include:
1. Assurance that ~~the fund adheres to this IPS and that each money or~~ investment managers adheres to ~~their specific 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 ~~other~~ similar money or investment managers in terms of style, diversification, volatility, and performance.



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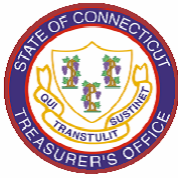
#### PART I – TREASURER OVERVIEW

- 3. Risk analysis of portfolio investment strategies versus comparable indices.
- 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 ~~to the fund~~. 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 Treasury Office of the Treasurer. In addition, it is the Treasurer's intention to structure any brokerage program ~~in a way~~ as to afford qualified Connecticut, emerging, minority owned and ~~women women~~ owned firms the opportunity to compete for brokerage business, consistent with standards of best price, execution and quality of service noted above.





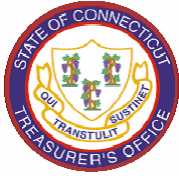
## INVESTMENT POLICY STATEMENT

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#### Article XIV. Other Policy Considerations

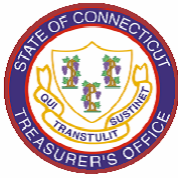
- A. Third party banks are ~~primarily responsible~~ utilized for the safekeeping of ~~assets, holding the~~ CRPTF assets, holding the CRPTF assets in custody, valuing plan investments, engaging in securities lending activities and maintaining accurate records of all investments and transactions. All such third party banks will take direction from the Treasurer or a designee.
- B. Portfolio execution is conducted through designated investment money managers. ~~Investment~~ 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. ~~Investment~~ Money managers are also responsible for executing the Treasurer's directives ~~of the Treasurer.~~
- 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, ~~while;~~ at the same time achieving any necessary geographical diversification.
- E. Deviations from ~~Investment Policy: It is recognized that 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. ~~As such, the~~ The Treasurer may deviate from this policy from time to time, after approval by the IAC, ~~provided that she believes~~ 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.



## **INVESTMENT POLICY STATEMENT**

State of Connecticut Retirement Plans & Trust Funds

## **PART II - RETIREMENT PLANS AND TRUST FUNDS**



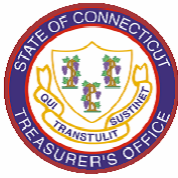
## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART II – RETIREMENT PLANS AND TRUST FUNDS

#### 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
1. With regard to subsequent changes to any sub-asset allocation composition, the following process shall be followed.
  2. The proposed plan changes and recommendations will be presented by the Treasurer at a regularly scheduled IAC meeting.
  3. Consideration for approval shall be taken up at the next following regularly scheduled IAC meeting.
  4. The Treasurer's recommendation shall be deemed approved if it receives a majority of the public IAC members' vote to approve.
  5. In the event the Treasurer's recommendation is not approved, there will be no changes to the existing appendix.
  6. 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.
  7. The approved changes shall be posted on the Treasurer's website, and a revised appendix shall be made part of this IPS.



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART II – RETIREMENT PLANS AND TRUST FUNDS

#### 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 funds/assets of the TERF are overseen by the State 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

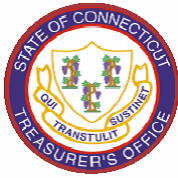
Public Act 78-208 established the TERF for the purposes of providing retirement and other benefits to teachers, their survivors and beneficiaries that have fulfilled the requirements as set forth in the TERF guidelines and Sections 10-160 to 10-180b of the Connecticut General Statutes.

##### C. Investment Objectives

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

##### D. Asset Allocation

The TERF's asset mix is established by the Treasurer and the IAC from time to time based on (1) capital market theory, (2) its the TERF's financial requirements and (3) its the TERF's liquidity needs, as specified in Article IV of Part I of this IPS. 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.



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART II – RETIREMENT PLANS AND TRUST FUNDS

## 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 funds/assets of the SERF are overseen by the State 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

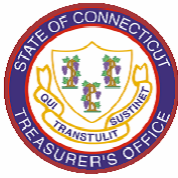
Public Act 61-234 re-stated the State Employees Retirement Act and reaffirmed the SERF as the entity that would provide retirement and other benefits to stateState employees, their survivors, and beneficiaries that who have fulfilled the requirements as set forth in the SERF guidelines, and as negotiated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

### C. Investment Objectives

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

### D. Asset Allocation

The SERF's asset mix shall be established by the Treasurer and the IAC from time to time based on (1) capital market theory, (2) its the SERF's financial requirements and (3) its the SERF's liquidity needs, as specified in Article IV of Part I of this IPS. 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.



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART II – RETIREMENT PLANS AND TRUST FUNDS

### 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 ~~funds-assets~~ of the CMERF are overseen by the ~~State~~-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

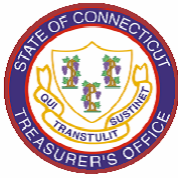
Public Act 69-191(s. 2) established the CMERF for the purposes of providing retirement and other benefits to employees and their beneficiaries of participating municipal and local governmental units. The retirement plan permits municipalities with a small number of employees to get the benefit of the 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. ~~The fund~~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 ~~of the MERF~~ is to provide a secure source of retirement income for its beneficiaries. The CMERF's financial objectives ~~of the MERF~~ are long-term in nature and have been established based on a comprehensive review of the capital markets and ~~the its~~ underlying ~~funds'~~ current and projected financial requirements, as ~~specified in Article III of Part I of this IPS.~~ determined through an asset/liability study.

#### D. Asset Allocation

The CMERF's asset mix is established by the Treasurer and the IAC ~~from time to time~~ based on (1) capital market theory, (2) ~~its~~the CMERF's financial requirements and (3) ~~its~~the CMERF's liquidity needs, ~~as specified in Article IV of Part I of this IPS.~~ 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.



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART II – RETIREMENT PLANS AND TRUST FUNDS

#### Article IV. Probate ~~Court~~ Judges 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 ~~funds-assets~~ of the PROB are overseen by the ~~State~~-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

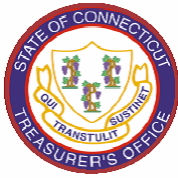
Public Act 67-191(s. 40) established the PROB for the purposes of providing retirement and other benefits to Judges of Probate and Probate Court employees and their beneficiaries.

##### 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 ~~of the PROB~~ are long-term in nature and have been established based on a comprehensive review of the capital markets and ~~the its~~ underlying ~~funds’~~ current and projected financial requirements, as ~~specified in Article III of Part I of this IPS.~~ determined through an asset/liability study.

##### D. Asset Allocation

The PROB’s asset mix shall be established by the Treasurer and the IAC ~~from time to time~~ based on (1) capital market theory, (2) ~~its~~ the PROB’s financial requirements and (3) ~~its~~ the PROB’s liquidity needs, ~~as specified in Article IV of Part I of this IPS.~~ 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.



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART II – RETIREMENT PLANS AND TRUST FUNDS

#### 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 ~~funds-assets~~ of the JURF are overseen by the ~~State~~-Treasurer (as principal fiduciary of the CRPTF<sub>2</sub>) 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 ~~that who~~ have fulfilled the requirements set forth in the JURF guidelines.

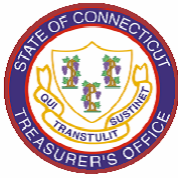
##### C. Investment Objectives

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

##### D. Asset Allocation

The JURF’s asset mix shall be established by the Treasurer and the IAC ~~from time to time~~ based on (1) capital market theory, (2) ~~its~~the JURF’s financial requirements and (3) ~~its~~the JURF’s liquidity needs~~, as specified in Article IV of Part I of this IPS.~~ 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.





## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART II – RETIREMENT PLANS AND TRUST FUNDS

#### 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~~9, 17). Fund administration is through the State Employees Retirement Commission and the Office of the State Comptroller.

The ~~funds-assets~~ of the SARF are overseen by the ~~State~~-Treasurer (as principal fiduciary of the CRPTF~~7~~7) and are invested in accordance with applicable statutory requirements and fiduciary standards. (See Sections 3-13c and 3-13d of the Connecticut General Statutes~~7~~7.)

##### B. Statement of Purpose

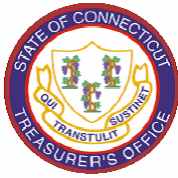
The SARF was established for the purposes of providing retirement and other benefits to certain states ~~attorney's~~attorneys and certain public defenders and their beneficiaries ~~that who~~ have fulfilled the requirements set forth in the SARF guidelines.

##### C. Investment Objectives

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

##### D. Asset Allocation

The SARF's asset mix shall be established by the Treasurer and the IAC ~~from time to time~~ based on (1) capital market theory, (2) ~~its the SARF's~~ financial requirements and (3) ~~its the SARF's~~ liquidity needs, ~~as specified in Article IV of Part I of this IPS.~~ 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.



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART II – RETIREMENT PLANS AND TRUST FUNDS

#### Article VII. Policemen ~~And~~and Firemen Survivors' Benefit Fund

##### A. Investment Authority

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

The ~~funds-assets~~ of the POFI are overseen by the ~~State~~-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 ~~that~~who have fulfilled the requirements set forth in the POFI guidelines.

##### C. Investment Objectives

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

##### D. Asset Allocation

The POFI's asset mix shall be established by the Treasurer and the IAC ~~from time to time~~-based on (1) capital market theory, (2) ~~its~~the POFI's financial requirements, and (3) ~~its~~the POFI's liquidity needs, as specified in Article IV of Part I of this IPS. Prior to May 27, 1999, ~~the this fund's~~ assets ~~of the fund~~ 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.



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART II – RETIREMENT PLANS AND TRUST FUNDS

#### 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 ~~funds-assets~~ of the AGRI are overseen by the ~~State~~-Treasurer (as principal fiduciary of the CRPTF<sub>7</sub>) and are invested in accordance with applicable statutory requirements and fiduciary standards. (See Sections 3-13c and 3-13d of the Connecticut General Statutes~~7~~.)

##### 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 ~~fund-assets~~ “inviolably appropriated for teaching; principally, the science of agriculture and the mechanical arts.” The Treasurer annually transfers ~~the net income earned by the fund a distribution~~ to the University of Connecticut.

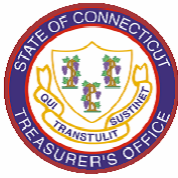
##### C. Investment Objectives

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 ~~of the AGRI~~ are long-term in nature and have been established based on a comprehensive review of the capital markets and ~~the-its~~ underlying ~~trusts'~~ 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 ~~the fund~~ AGRI are as follows:

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



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART II – RETIREMENT PLANS AND TRUST FUNDS

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.

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

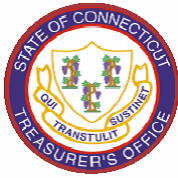
The AGRI's asset mix shall be established by the Treasurer and the IAC ~~from time to time~~ based on (1) capital market theory, (2) ~~its the AGRI's~~ financial requirements and (3) ~~its the AGRI's~~ liquidity needs. ~~Table 1 outlines asset class targets and permissible ranges for the allocation of assets, as adopted by the Treasurer and the IAC. The ranges are intended to serve as boundaries for the AGRI's individual asset classes as more particularly described in Article V of Part I of this IPS. The ranges were established based on the relative volatility, transaction costs, and targets of the various asset classes. 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.~~

~~The Treasurer believes that the adoption of these targets and ranges will provide an appropriate mechanism for maintaining the integrity of the asset allocation policy.~~

**Table 1**  
**State of Connecticut**  
**Agricultural College Fund**  
**Asset Allocation Policy and Relative Ranges**

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Lower Bound</b>	<b>Upper Bound</b>
<i>Mutual Equity Fund (U.S. Equity)</i>	25%	20%	30%
<i>Mutual Fixed Income Fund</i>	70%	63%	77%
<i>CRA (Cash)</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.~~

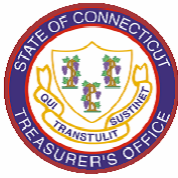


## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART II – RETIREMENT PLANS AND TRUST FUNDS

~~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.~~



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART II – RETIREMENT PLANS AND TRUST FUNDS

#### 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 ~~funds-assets~~ of ACCF are overseen by the ~~State~~-Treasurer (as principal fiduciary of the CRPTF<sub>2</sub>) and are invested in accordance with applicable statutory requirements and fiduciary standards. (See Sections 3-13c and 3-13d of the Connecticut General Statutes<sub>2</sub>.)

##### B. Statement of Purpose

The ~~State~~-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 ~~the-his~~ estate ~~bequeathed~~ would be shared equally by the State and the Congregational Home Missionary Society of New York. In his will, Andrew C. Clark ~~bequeaths~~~~bequeathed that~~ one half of his entire estate be held and invested<sub>2</sub> for the same objects and purposes for which the School Fund was established<sub>2</sub> (as described herein 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 ~~of the ACCF~~ are long-term in nature and have been established based on a comprehensive review of the capital markets and ~~the-its~~ underlying ~~trusts'~~ 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 ~~the fund~~ ACCF are as follows:

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



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART II – RETIREMENT PLANS AND TRUST FUNDS

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 ACCF's asset ~~mix-allocation~~ shall be established by the Treasurer and the IAC ~~from time to time~~ based on (1) capital market theory, (2) ~~its-the ACCF's~~ financial requirements and (3) ~~its-the ACCF's~~ liquidity needs. ~~Table 1 outlines asset class targets and permissible ranges for the allocation of assets, as adopted by the Treasurer and the IAC. The ranges are intended to serve as boundaries for the ACCF's individual asset classes as more particularly described in Article V of Part I of this IPS. The ranges were established based on the relative volatility, transaction costs, and targets of the various asset classes. 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.~~

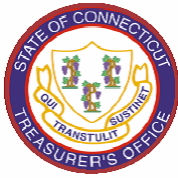
~~The Treasurer believes that the adoption of these targets and ranges will provide an appropriate mechanism for maintaining the integrity of the asset allocation policy.~~

**Table 1**  
**State of Connecticut**  
**Andrew C. Clark Fund**  
**Asset Allocation Policy and Relative Ranges**

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Lower Bound</b>	<b>Upper Bound</b>
<b><i>Mutual Equity Fund (U.S. Equity)</i></b>	<b><i>25%</i></b>	<b><i>20%</i></b>	<b><i>30%</i></b>
<b><i>Mutual Fixed Income Fund</i></b>	<b><i>70%</i></b>	<b><i>63%</i></b>	<b><i>77%</i></b>
<b><i>CRA (Cash)</i></b>	<b><i>5%</i></b>	<b><i>3%</i></b>	<b><i>7%</i></b>
	<b><i>100%</i></b>		

~~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.~~



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART II – RETIREMENT PLANS AND TRUST FUNDS

#### Article X. ~~Connecticut~~ Arts Endowment Fund

##### A. Investment Authority

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

The ~~funds-assets~~ of ARTS are overseen by the ~~State~~-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. ~~These funds are distributed~~ A distribution is made to the State Commission on the Arts annually ~~and 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 ~~of the ARTS~~ are long-term in nature and have been established based on a comprehensive review of the capital markets and ~~the its~~ underlying ~~trusts'~~ 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 ~~the fund~~ARTS are as follows:

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





## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART II – RETIREMENT PLANS AND TRUST FUNDS

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.

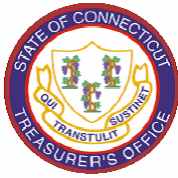
#### D. Asset Allocation

The ARTS's asset ~~mix allocation~~ shall be established by the Treasurer and the IAC ~~from time to time~~ based on (1) capital market theory, (2) ~~its~~the ARTS's financial requirements and (3) ~~its~~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. Table 1 outlines asset class targets for the allocation of assets, as adopted by the Treasurer and the IAC. Emphasis on current income and cash flow has resulted in an investment allocation exclusively consisting of fixed income.~~

**Table 1**  
**State of Connecticut**  
**Arts Endowment Fund**  
**Asset Allocation Policy and Relative Ranges**

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Lower Bound</b>	<b>Upper Bound</b>
<b><i>Mutual Fixed Income Fund</i></b>	<b><i>100%</i></b> <b><i>100%</i></b>	<b><i>N/A</i></b>	<b><i>N/A</i></b>

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



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART II – RETIREMENT PLANS AND TRUST FUNDS

#### 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 ~~funds-assets~~ of the HOPE are overseen by the ~~State~~-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, ~~CT, 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 ~~funds-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 ~~funds-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 ~~of the HOPE~~ are long-term in nature and have been established based on a comprehensive review of the capital markets and ~~the-its~~ underlying ~~trusts’~~ 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;



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART II – RETIREMENT PLANS AND TRUST FUNDS

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

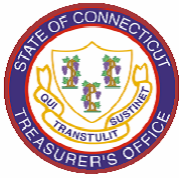
#### D. Asset Allocation

The HOPE's asset ~~mix-allocation~~ shall be established by the Treasurer and the IAC ~~from time to time~~ based on (1) capital market theory, (2) ~~its-the HOPE's~~ financial requirements and (3) ~~its-the HOPE's~~ liquidity needs. ~~Table 1 outlines asset class targets and permissible ranges for the allocation of assets, as adopted by the Treasurer and the IAC. The ranges are intended to serve as boundaries for the HOPE's individual asset classes as more particularly described in Article V of Part I of this IPS. The ranges were established based on the relative volatility, transaction costs, and targets of the various asset classes. 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.~~

~~The Treasurer believes that the adoption of these targets and ranges will provide an appropriate mechanism for maintaining the integrity of the asset allocation policy.~~

**Table 1**  
**State of Connecticut**  
**Hopemead Fund**  
**Asset Allocation Policy and Relative Ranges**

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Lower Bound</b>	<b>Upper Bound</b>
<i>Mutual Equity Fund (U.S. Equity)</i>	25%	20%	30%
<i>Mutual Fixed Income Fund</i>	70%	63%	77%
<i>CRA (Cash)</i>	5%	3%	7%
	100%		



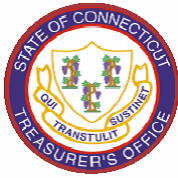
## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART II – RETIREMENT PLANS AND TRUST FUNDS

~~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.~~



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART II – RETIREMENT PLANS AND TRUST FUNDS

#### Article XII. Ida Eaton Cotton Fund

##### A. Description

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

The ~~funds-assets~~ of the ~~IDAE~~IECF are overseen by the ~~State~~ 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, ~~mandates~~mandated that interest income from the principal of the ~~Ida Eaton Cotton Trust Fund~~IECF bequest be ~~expended~~used to sponsor and encourage industry among the adult blind community. Thus, on behalf of IECF, ~~funds-area distribution is annually~~ transferred annually to the General Fund for ~~distribution-use by~~ the Board of Education Services for the Blind ~~for distribution within their guidelines~~.

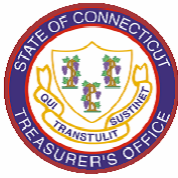
##### C. Investment Objectives

The primary investment objective of the ~~IDAE~~IECF is to provide a secure source of income. The IECF’s financial objectives ~~of the IDAE~~ are long-term in nature and have been established based on a comprehensive review of the capital markets and ~~the-its~~ underlying ~~Trusts’~~ 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 ~~the fund~~IECF are as follows:

1. To provide a satisfactory current stream of income given current dollars invested;
2. ~~Maintain~~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



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART II – RETIREMENT PLANS AND TRUST FUNDS

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

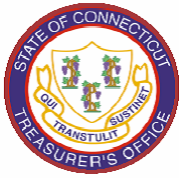
The ~~IDAE's~~IECF's asset ~~mix allocation~~ shall be established by the Treasurer and the IAC ~~from time to time~~ based on (1) capital market theory, (2) ~~its~~the IECF's financial requirements and (3) ~~its~~the IECF's liquidity needs. ~~Table 1 outlines asset class targets and permissible ranges for the allocation of assets, as adopted by the Treasurer and the IAC. The ranges are intended to serve as boundaries for the IDAE's individual asset classes as more particularly described in Article V of Part I of this IPS. The ranges were established based on the relative volatility, transaction costs, and targets of the various asset classes. 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.~~

~~The Treasurer believes that the adoption of these targets and ranges will provide an appropriate mechanism for maintaining the integrity of the asset allocation policy.~~

**Table 1**  
**State of Connecticut**  
**Ida Eaton Cotton Fund**  
**Asset Allocation Policy and Relative Ranges**

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Lower Bound</b>	<b>Upper Bound</b>
<b><i>Mutual Equity Fund (U.S. Equity)</i></b>	<b><i>25%</i></b>	<b><i>20%</i></b>	<b><i>30%</i></b>
<b><i>Mutual Fixed Income Fund</i></b>	<b><i>70%</i></b>	<b><i>63%</i></b>	<b><i>77%</i></b>
<b><i>CRA (Cash)</i></b>	<b><i>5%</i></b>	<b><i>3%</i></b>	<b><i>7%</i></b>
	<b><i>100%</i></b>		

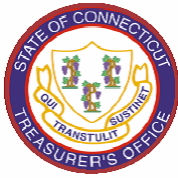
Note: Publicly listed common stock investments including U.S. equity securities are subject to a statutory limit of 60% of the IDAE's total portfolio.



## INVESTMENT POLICY STATEMENT

State of Connecticut Retirement Plans & Trust Funds  
PART II – RETIREMENT PLANS AND TRUST FUNDS

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



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART II – RETIREMENT PLANS AND TRUST FUNDS

### 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 ~~funds-assets~~ of the SCOL are overseen by the ~~State~~-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 ~~School Fund~~SCOL was established through an Act of Congress on July 2, 1862 (as was the Agricultural College Fund) ~~by 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 ~~School Fund~~SCOL was originally under the jurisdiction of the Agricultural College of the University of Connecticut, but is now within the Department of Education. ~~The earnings of the fund are~~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 ~~of the SCOL~~ are long-term in nature and have been established based on a comprehensive review of the capital markets and ~~the-its~~ underlying ~~trusts’~~ 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 ~~the fund~~SCOL are as follows:

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





## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART II – RETIREMENT PLANS AND TRUST FUNDS

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 SCOL's asset ~~mix allocation~~ shall be established by the Treasurer and the IAC ~~from time to time~~ based on (1) capital market theory, (2) ~~its the SCOL's~~ financial requirements and (3) ~~its the SCOL's~~ liquidity needs. ~~Table 1 outlines asset class targets and permissible ranges for the allocation of assets, as adopted by the Treasurer and the IAC. The ranges are intended to serve as boundaries for the SCOL's individual asset classes as more particularly described in Article V of Part I of this IPS. The ranges were established based on the relative volatility, transaction costs, and targets of the various asset classes. 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.~~

~~The Treasurer believes that the adoption of these targets and ranges will provide an appropriate mechanism for maintaining the integrity of the asset allocation policy.~~

**Table 1**  
**State of Connecticut**  
**School Fund**  
**Asset Allocation Policy and Relative Ranges**

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Lower Bound</b>	<b>Upper Bound</b>
<b><i>Mutual Equity Fund (U.S. Equity)</i></b>	<b><i>25%</i></b>	<b><i>20%</i></b>	<b><i>30%</i></b>
<b><i>Mutual Fixed Income Fund</i></b>	<b><i>70%</i></b>	<b><i>63%</i></b>	<b><i>77%</i></b>
<b><i>CRA (Cash)</i></b>	<b><i>5%</i></b>	<b><i>3%</i></b>	<b><i>7%</i></b>
	<b><i>100%</i></b>		

~~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 a asset allocation/liability study of the SCOL.~~



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART II – RETIREMENT PLANS AND TRUST FUNDS

#### 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 ~~funds-assets~~ of the SSMF are overseen by the ~~State~~-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 ~~of income derived~~ 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.

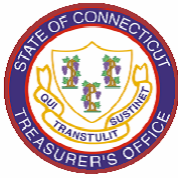
##### C. Investment Objectives

The primary investment objective of the SSMF is to provide a secure source of income. The SSMF's financial objectives ~~of the SSMF~~ are long-term in nature and have been established based on a comprehensive review of the capital markets and ~~the its~~ underlying ~~trusts'~~ 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 ~~the fund~~SSMF are as follows:

1. To provide a satisfactory current stream of income ~~to fund necessary~~ 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



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART II – RETIREMENT PLANS AND TRUST FUNDS

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

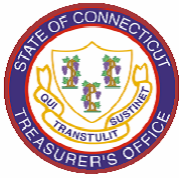
The SSMP's asset ~~mix allocation~~ shall be established by the Treasurer and the IAC ~~from time to time~~ based on (1) capital market theory, (2) ~~its the SSMP's~~ financial requirements and (3) ~~its the SSMP's~~ liquidity needs. ~~Table 1 outlines asset class targets and permissible ranges for the allocation of assets, as adopted by the Treasurer and the IAC. The ranges are intended to serve as boundaries for the SSMP's individual asset classes as more particularly described in Article V of Part I of this IPS. The ranges were established based on the relative volatility, transaction costs, and targets of the various asset classes. Emphasis on current income and cash flow has resulted in an investment allocation mostly consisting of fixed income with a modest allocation to equities providing the opportunity for capital appreciation. 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.~~

~~The Treasurer believes that the adoption of these targets and ranges will provide an appropriate mechanism for maintaining the integrity of the asset allocation policy.~~

**Table 1**  
**State of Connecticut**  
**Soldiers' Sailors' & Marines' Fund**  
**Asset Allocation Policy and Relative Ranges**

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Lower Bound</b>	<b>Upper Bound</b>
<b><i>Mutual Equity Fund (U.S. Equity)</i></b>	<b>8%</b>	<b>4%</b>	<b>12%</b>
<b><i>Mutual Fixed Income Fund</i></b>	<b>90%</b>	<b>85%</b>	<b>95%</b>
<b><i>CRA (Cash)</i></b>	<b>2%</b>	<b>1%</b>	<b>3%</b>
	<b>100%</b>		

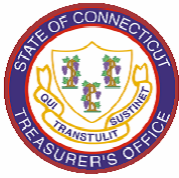
~~Note: Publicly listed common stock investments including U.S. equity securities are subject to a statutory limit of 60% of the SSMP's total portfolio.~~



## INVESTMENT POLICY STATEMENT

State of Connecticut Retirement Plans & Trust Funds  
PART II – RETIREMENT PLANS AND TRUST FUNDS

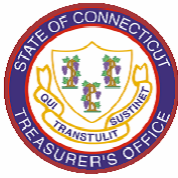
~~Any material changes necessary would be pursuant to the findings of an asset allocation/liability study of the SSMP.~~



## **INVESTMENT POLICY STATEMENT**

State of Connecticut Retirement Plans & Trust Funds

### **PART III - COMBINED INVESTMENT FUNDS**



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART III – COMBINED INVESTMENT FUNDS

#### Article I. Introduction

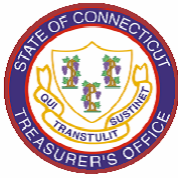
A. The Combined Investment Funds (the “Fund(s)”) are separate legally defined funds; ~~which that~~ have been created by the Treasurer of the State of Connecticut under the authority ~~of set forth in~~ Section 3-31b of the Connecticut General Statutes. The Funds were established to provide a means for 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, ~~Mutual Fixed Income 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. ~~the Private Equity Fund,~~
11. ~~Alternative~~ Investment Fund, and
12. ~~the Cash Reserve Liquidity Fund. 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.~~

B. The units of the Funds are owned by ~~these 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.~~

~~Teachers’ Retirement Fund, State Employees’ Retirement Fund, Connecticut Municipal Employees’ Retirement Fund, State Judges’ Retirement Fund, Probate Court Retirement Fund, States’ Attorney Retirement Fund, Soldiers’ Sailors’ & Marine’s Fund, Police and Firemen Survivors’ benefit Fund, Connecticut Arts Endowment Fund, School Fund, Ida~~



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART III – COMBINED INVESTMENT FUNDS

~~Eaton Cotton Fund, Hopemead Fund, Andrew C. Clark Fund, and the Agricultural College Fund.~~

~~It is the policy of the CRPTF, as reflected in this IPS, that the investment of 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. Professional investment managers will be selected and monitored based on (1) conformity of investment style with the CRPTF's return objectives, (2) demonstrated ability to achieve above average results consistently and (3) continuity of senior personnel.~~

#### C. Diversification

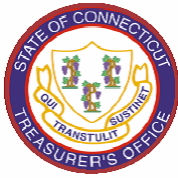
~~The overall return of the CRPTF is measured against the total fund benchmark, a hybrid benchmark customized to reflect the CRPTF's asset allocation and performance objectives. This benchmark is comprised of 36% Russell 3000 Index; 18% International Stock Fund benchmark; 29% Mutual Fixed Income benchmark; 5% NCREIF Property Index; 11% Connecticut Private Equity/Venture Capital Index; and 1% Donoghue Money Fund Average. The International Stock Fund benchmark is comprised of 83% Salomon Smith Barney EPAC Broad Market 50% Hedged Index, and 17% MSCI Emerging Markets Free Index. The Mutual Fixed Income benchmark consists of 73% Lehman Brothers Aggregate Index, 17% Salomon High Yield Market Index, and 10% JPM Emerging Markets Bond Index. The Connecticut Private Equity/Venture Capital Index is made up of 50% Cambridge Associates Private Equity Index and 50% Cambridge Associates Venture Capital Index.~~

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

~~It is the current practice that the assets of CRPTF are externally managed. However, nothing in this policy statement 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 Treasury.~~

1. Professional money managers will be selected and monitored based on (1) conformity of investment style with each of the CRPTF's return objectives,



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART III – COMBINED INVESTMENT FUNDS

- (2) demonstrated ability to achieve above average results consistently and
- (3) continuity of senior personnel.

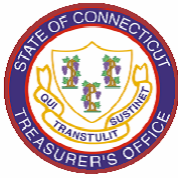
~~The specific guidelines unique to each external manager will be developed cooperatively by the Treasurer and manager and shall be incorporated into the Investment Management Contract executed by the Treasurer and the manager. Sector, investment selection, and decisions regarding the timing of purchases and sales of these investments are delegated to the manager, subject to restrictions established by the Treasurer. In the case of a conflict between a manager's specific guidelines and the general guidelines of the fund, the former shall prevail.~~

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.

#### 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





## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART III – COMBINED INVESTMENT FUNDS

- 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.



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

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## Article II. ~~Asset Class Guidelines~~-Mutual Equity Fund

~~Note: The following guidelines were adopted May 13, 1998. As part of the Asset Allocation Plan approved by the IAC in August, 1999 and reaffirmed in January, 2001, a comprehensive review of this asset class is scheduled for calendar 2002.~~

### A. Statement of Purpose

The Mutual Equity Fund (“MEF”) ~~will~~shall invest primarily ~~invest~~ 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. ~~MEF is the foundation for providing above average returns, which will help meet the obligations of the plans and trusts investing in MEF.~~

### B. Description of the Fund

~~As stated above, MEF will~~shall invest primarily ~~invest~~ in the common stocks of U.S. corporations. These investments ~~will~~shall be made using ~~external money managers~~advisors. ~~It is anticipated that a significant component of MEF’s assets will be invested in a passive manner utilizing index funds. The Treasurer will determine the actual proportion of index funds used. 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.~~

~~MEF assets shall be allocated across the U.S. stock market so that there is diversification by both market capitalization and by investment style, such as value and growth.~~

### C. Performance Benchmark & Objectives

~~The Performance Objectives~~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-



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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:

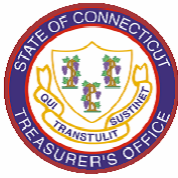
~~The objective of MEF is to achieve a net return, which exceeds the Russell 3000 Index by one percentage point per annum, over rolling three to five year periods. This objective may require the use of both enhanced index and active investment strategies.~~

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.
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 for Investment Advisors

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.



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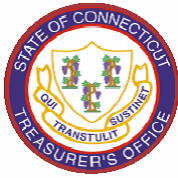
#### PART III – COMBINED INVESTMENT FUNDS

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.

~~Advisors are expected to add value with equity investments and shall remain fully invested at all times. “Fully invested” is defined as having at least 95% of the portfolio’s market value invested in equity investments. In no event shall more than 5% of the portfolio’s market value be invested in cash or cash equivalents without the prior written approval of the Treasurer. Advisors receiving new money contributions on the first business day of any month are expected to be fully invested within sixty calendar days except as otherwise permitted in accordance with the foregoing sentence.~~

~~The following investment restrictions/limitations apply to all advisors unless authorized in the advisor’s specific investment agreement:~~

- ~~1. Purchase no equities that are not readily marketable.~~
- ~~2. Make no short sales.~~
- ~~3. Make no use of leverage or margin purchasing.~~
- ~~4. The use of futures and options for hedging purposes is prohibited.~~
- ~~5. The purchase of foreign securities is permitted 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 foreign securities shall not exceed 15% of the market value of any portfolio.~~
- ~~6. Convertible bonds are prohibited.~~
- ~~7. Portfolio cash balances shall be invested in the Cash Reserve Account.~~
- ~~8. Advisors shall adhere to the specific investment and administrative guidelines established for their portfolios. The management style of the portfolio shall not be changed without the written consent of the Treasurer.~~
- ~~9. Investments shall adhere to all limitations imposed by Connecticut or federal law.~~



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**Article III. ~~Asset Class Guidelines-Developed Markets~~ International Stock Fund**

~~Note: The following guidelines were approved by the IAC on October 23, 2003 and adopted by the Treasurer on October 23, 2003.~~

**Fund Benchmark**

~~The International Stock Fund's ("ISF") Hybrid Benchmark is 83% SSB EPAC Broad Market Index half hedged/17% MSCI Emerging Markets Free Index.~~

A. 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**

~~ISF shall consist of a series of externally managed equity portfolios which, in aggregate, are structured to achieve long-term performance consistent with the non-U.S. equity markets and add to the diversification of the CRPTF total portfolio. ISF will invest in a combination of developed and emerging markets with targets of 83% and 17%, respectively.~~

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



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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. Investment Performance Benchmark & Objectives

- ~~Provide diversification benefits to the CRPTF performance. When combined with the MEF achieve a lower volatility of returns than the MEF alone.~~  
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 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:
- ~~Outperform the Hybrid Benchmark (83% SSB EPAC Broad Market Index half-hedged/17% MSCI Emerging Markets Free Index) net of management fees by 100 basis points per annum over rolling five-year periods.~~
  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.
- ~~Achieve cumulative performance results that rank in the top third of international equity managers over rolling periods.~~
- ~~Generate strong risk-adjusted returns, as measured by the information ratio (excess return divided by tracking error). Generate an information ratio for the portfolio over rolling five-year periods of 0.50.~~

#### 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



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specific Investment Management Agreement (IMA) with the Treasurer. Therefore, money managers:

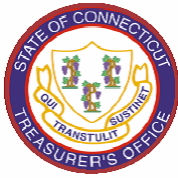
1. shall purchase only equities that are readily marketable.
2. shall not make any short sales, unless specifically authorized in the IMA as part of an opportunistic investment strategy.
3. shall not make use of leverage or margin purchasing.
4. shall not purchase futures or options.
5. may purchase American Depository 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.

~~•Maintain volatility (standard deviation of returns) no greater than 50 basis points above the Hybrid Benchmark for rolling five-year periods.~~

~~•Maintain a volatility of excess returns no greater than 3% over rolling five-year periods.~~

#### ~~und Structure~~

~~Given the investment objectives of the fund, 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) pursue a diverse set of risks.~~



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#### Article IV. Emerging Markets International Stock Fund

##### A. Statement of Purpose

~~In accordance with this philosophy, the table below outlines the policies with regard to the number, types, and allocation to specific managers defined as follows:~~

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.

~~Passive—manager attempts to match an index return;~~

##### B. Description of the Fund

~~Risk Controlled—manager assumes only modest amount (< 3%) of active risk in its portfolio and typically will closely monitor and manage within active risk range;~~

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”).

~~Core—manager who is acutely aware of benchmark relative exposures and manages portfolio with constraints placed on certain exposures such as countries, industries, and market capitalization. Although core managers do not tightly manage risk in portfolios based on tracking error guidelines, active risk levels for these managers generally range from 2% to 4%;~~

##### C. Performance Benchmark & Objectives

~~Active/Specialist—managers who are generally bottom-up stock pickers and have little regard for benchmark relative exposures (active risk can vary but is generally in the 4%-8% range);~~

The Performance Benchmark for EMISF is the MSCI Emerging Markets Free Index (EMF) with net dividends reinvested. The Performance Objective of EMISF is to





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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:

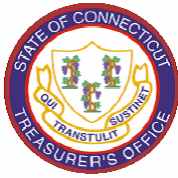
~~Small Cap—manager focused on small company stocks with market caps generally below \$2 billion; a number of styles from core to active/specialists are represented in the small-cap manager universe.~~

**Table A**

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.
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.

	<b>Policy Target %</b>	<b>Lower Range %</b>	<b>Upper Range %</b>	<b>Benchmark</b>
<b>Developed Markets</b>				
Passive	12.5	10.0	15.0	SSB-PMI
Risk Controlled	12.5	10.0	15.0	SSB-PMI
Core	25.0	20.0	30.0	SSB-PMI
Active	23.0	18.0	28.0	SSB-PMI
Small Cap	10.0	7.5	12.5	SSB-EMI
—— Subtotal	83.0	75.0	90.0	SSB-EPAC-BMI Half-Hedged
<b>Emerging</b>				
Active	17	10	25	MSCI Emerging Markets Free
—— Subtotal	17	10	25	

~~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. As a result of the asset liability study in 1999, a strategic hedge ratio of~~



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~~50% was adopted for the developed market portion of the ISF. This strategic hedge ratio represents the neutral stance or desired long-term exposure to currency for the ISF.~~

#### 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:

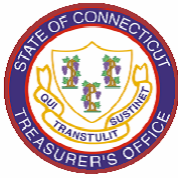
1. shall purchase only equities that are readily marketable.
2. shall not make any short sales.
3. shall not make use of leverage or margin purchasing.
4. shall not purchase futures or options.
5. may purchase American Depository Receipts ("ADRs") however; the market value of such American shares shall 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.

~~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.~~

#### Investment Guidelines

~~Investment managers will be given full discretion to manage their portion of the CRPTF 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.~~

~~The 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.~~



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#### Proxy Voting Guidelines

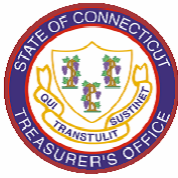
~~Proxy voting will be carried out in a manner, which is consistent with the approved CRPTF guidelines for such voting.~~

#### Eligible Investments

- ~~Securities that may be held include:~~
  - ~~Common and preferred stocks~~
  - ~~Convertible securities and warrants~~
  - ~~American Depositary Receipts~~
  - ~~European Depositary Receipts~~
- ~~Securities that may not be held include:~~
  - ~~Private placement securities~~
  - ~~Venture capital~~
  - ~~Commodities~~
  - ~~Real estate (excluding REITs)~~

#### Portfolio Constraints

- ~~The portfolio will be fully invested with less than 5% of assets invested in cash at any time.~~
- ~~Individual country weights will not deviate from the respective country weight of the Hybrid Benchmark Index by more than the greater of 15% (5% for countries in the MSCI EMF Index) or 50% of the benchmark weight.~~
- ~~The portfolio will not concentrate its holdings in any particular sector. Maximum deviations will be no more than the greater of 15% of the Benchmark Index or 50% of the industry weight relative to the Hybrid benchmark in any one sector as defined by the BARRA sector definitions (8 broad sectors including multi-industry, finance, services, consumer goods, capital equipment, materials, utilities, and energy).~~
- ~~Securities of non U.S. issuers represented by ADRs, European Depositary Receipts (“EDRs”), convertible securities, preferred stock, and warrants may be held. At no time should the cumulative market value of these securities exceed 20% of the portfolio.~~
- ~~Any use of futures and options must be established in written guidelines in advance. In no event, however, shall leverage be employed in the fund. In addition, futures and options cannot be used for speculative purposes under any circumstances. The fund may not sell short, lend securities, or buy securities on margin without written consent of Treasurer.~~



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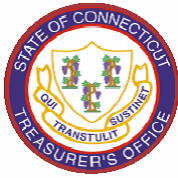
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#### **Diversification**

- ~~Diversification should be maintained at all times within the fund. Securities of a single issuer should generally not exceed 10% of the market value of the fund or, if greater, the capitalization weighting of that stock in the fund Hybrid Benchmark. No greater than 5% or the benchmark weight of the equity portion of the portfolio, based on the cost value at the time of purchase, shall be invested in the securities of any one issuing corporation.~~
- ~~Broad regional diversification will be maintained at all times. These regions, defined as Asia ex-Japan Developed Markets, Europe ex-U.K., United Kingdom, Japan, Asian Emerging Markets, Europe/Middle East/African Emerging Markets and Latin America, will not have deviations from the Hybrid Benchmark weights of more than 20% (5% for emerging markets regions) of the Hybrid Benchmark's regional allocation.~~

#### **Communications, Reporting, & Notification**

- ~~Any significant change in investment strategy by an external manager will be communicated to Treasurer.~~
  - ~~Any significant change in ownership or key personnel at an external 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.~~
  - ~~Performance results, portfolio listings and valuations must be provided on a quarterly basis.~~
  - ~~Portfolio accounting will be reconciled to the master custodian on a monthly basis, in a manner prescribed by the Treasurer.~~
  - ~~Proxy voting activities will be reported periodically, as determined by the Treasurer.~~
-



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**Article IV. ~~Asset Class Guidelines Mutual~~ V. Core Fixed Income Fund**

**Note: The following guidelines were approved by the IAC on January 10, 2003 and adopted by the Treasurer on January 10, 2003.**

**A. Statement of Purpose**

**Fund Benchmark**

~~The Mutual Fixed Income Fund's Hybrid Benchmark is 70% Lehman Brothers Aggregate Index ("LB Aggregate") / 3% Lehman Brothers U.S. Treasury Inflation-Protected Securities Index ("LB U.S. TIPS") / 17% Salomon Smith Barney High Yield Market Index ("SSB High Yield Market") / 10% J.P. Morgan Emerging Markets Bond Index+ ("J.P. Morgan EMBI+").~~

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 MutualCore Fixed Income Fund ("~~MFIF~~CFFI") consists of a series of externally-managed fixed income portfolio(s) which, in aggregate, are structured to achieve long-term performance consistent with debt instruments issued by the fixed income markets U.S. Government and add to the diversification of the CRPTF total portfolio. The MFIF will invest in the following target combination: 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**

<b><u>Target</u></b>	<b><u>Asset Classes<sup>+</sup></u></b>
70%	Core Fixed Income
3%	Inflation Linked Bonds
17%	High Yield
10%	Emerging Markets Debt

<sup>+</sup> ~~These asset classes are defined in Treasurer Overview (Part I) – Asset Class Definitions (Article V) – Section B of this Investment Policy Statement.~~



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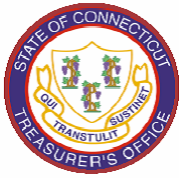
The Performance Benchmark for CFIF is the Lehman Brothers US Aggregate Index. The Performance Objective of CFIF is to achieve a net return that, at a minimum, matches the benchmark, over rolling three-to five-year periods. The ability of a money manager to outperform a benchmark will be contingent upon 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.

#### D. Investment Guidelines

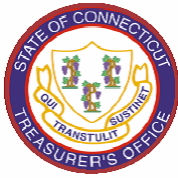
In general, the following CFIF investment restrictions/limitations apply to all CFIF money managers unless otherwise authorized in the money manager's specific Investment Objectives Management Agreement (IMA) with the Treasurer. Therefore, money managers:

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.



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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

- ~~• Provide diversification benefits to the CRPTF performance in different economic environments.~~
- ~~• Outperform the Hybrid Benchmark (70% LB Aggregate/3% LB U.S. TIPS/17% SSB High Yield/10% J.P. Morgan EMBI+) net of management fees by 65-135 basis points per annum over rolling five-year periods.~~
- ~~• Achieve cumulative performance results that rank in the top third of fixed income managers universe over rolling five-year periods.~~
- ~~• Generate strong risk-adjusted returns, as measured by the information ratio (excess return divided by tracking error). Generate an information ratio for the MFIF over rolling five-year periods of 0.50.~~
- ~~• Maintain volatility (standard deviation of returns) no greater than 50 basis points above the Hybrid Benchmark for rolling five-year periods.~~
- ~~• Maintain a volatility of excess returns between 130-270 basis points over rolling five-year periods.~~

#### A. Statement of Purpose

The Inflation Linked Bond Fund Structure (“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.

~~Given the investment objectives of the fund, 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) pursue a diverse set of risks. In accordance with this philosophy, the table below outlines the policies with regard to the types and allocation to specific managers defined as follows:~~

#### B. Description of Fund

- ~~• *Passive Core Fixed Income*—manager attempts to match the LB Aggregate index return.~~
- ~~• *Active Core Fixed Income*—managers utilize active portfolio management within the core fixed income sectors. Managers shall have characteristics similar to, but not necessarily equal to, the LB Aggregate index. The target tracking error range is typically between 75-150 basis points.~~
- ~~• *Inflation Linked Bonds*—Managers focus on fixed income securities that provide a real return above inflation. Managers shall have characteristics similar to, but not necessarily equal to, the LB U.S. TIPS index.~~





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- ~~High Yield~~ Managers focus on high yield securities. The target tracking error range is typically between 300-600 basis points.
- ~~Emerging Markets Debt~~ Managers focus on fixed income securities issued by emerging markets countries. The target tracking error range is typically between 400-900 basis points.

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

	<b>Policy Target (%)</b>	<b>Lower Range (%)</b>	<b>Upper Range (%)</b>	<b>Benchmark</b>
<b>Core Fixed Income</b>				
— Passive	20.0	18.0	22.0	LB Aggregate
— Active	50.0	45.0	55.0	LB Aggregate
— Subtotal	70.0	63.0	77.0	LB Aggregate
<b>Inflation-Linked Bonds</b>	3.0	2.0	4.0	LB U.S. TIPS
<b>High-Yield</b>	17.0	14.0	20.0	SSB High-Yield Market
<b>Emerging Markets Debt</b>	10.0	7.0	13.0	J.P. Morgan EMBI+

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:

#### Investment Guidelines



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~~Investment managers will be given full discretion to manage their portion of the CRPTF 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.~~

~~The 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.~~

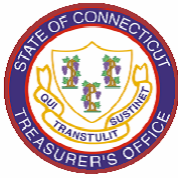
- ~~1. Provide diversification benefits to the CRPTF performance.~~
- ~~2. Achieve cumulative performance results that rank in the top third of inflation-linked bond managers over rolling three to five-year periods.~~
- ~~3. Generate strong risk-adjusted returns, as measured by the information ratio (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.~~

#### 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.

#### Permissible Investments



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#### Article VII. Emerging Market Debt Fund

~~The following type of investment are permitted, however they are constrained by the limit set forth in the Portfolio Constraints section:~~

##### A. Statement of Purpose

- ~~• U.S. Treasury Securities~~
- ~~• U.S. Agency Securities~~
- ~~• Municipal Securities~~
- ~~• Mortgage Backed Securities~~
- ~~• Asset Backed Securities~~
- ~~• U.S. Corporate/Credit Securities (Investment Grade & High Yield)~~
- ~~• Foreign Securities payable in U.S. dollar and other currencies (on a selective basis)~~
- ~~• Inflation Linked Bonds~~
- ~~• Emerging Markets Debt~~

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.

~~The following types of investment are not permitted unless otherwise authorized by the Treasurer in the manager’s specific investment guidelines:~~

##### B. Description of the Fund

- ~~• Convertible Securities~~
- ~~• Private Placement Securities (including Rule 144a)~~
- ~~• Derivative Instruments including, but not limited to, futures contracts, forward contracts, options, etc.~~

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.

#### Portfolio Constraints

##### C. Performance Benchmark and Objectives



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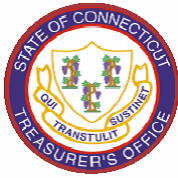
#### PART III – COMBINED INVESTMENT FUNDS

- ~~Advisors are expected to add value through exposure to the fixed income markets and remain fully invested at all time. Fully invested is defined as being at least 95% invested in fixed income securities with maturities of one year or longer unless written consent is obtained from the Treasurer.~~
- ~~For the purpose of calculating compliance with the credit constraints, if split rated, the lowest rating will apply.~~

- ~~Each manager is chosen to manage assets according to its particular mandate. The mandate calls for the assets to be invested primarily in the manager's asset class with the following exceptions:~~

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:

- ~~Core Fixed Income mandates are not permitted to invest in below investment grade securities (below BBB-/Baa3 ratings by S&P/Moody's). These managers are permitted to hold on to "fallen angels", securities downgraded from investment grade status to high yield status, for a reasonable time period in order to liquidate the position. However, at no time should the cumulative market value of high yield securities exceed 2% of the portfolio.~~
- ~~Core Fixed Income mandates are permitted to invest in foreign securities payable in U.S. dollar and other currencies on a selective basis. However, these securities are subject to the constraints set forth in the manager's specific guidelines.~~
- ~~Core Fixed Income mandates are permitted to invest in municipal securities on a selective basis. However, these securities are subject to the constraints set forth in the manager's specific guidelines.~~
- ~~High Yield mandates are not permitted to invest in investment grade securities (above and including BBB-/Baa3 ratings by S&P/Moody's). These managers are permitted to hold on to securities upgraded from high yield status to investment grade status for a reasonable time period in order to liquidate the position. The maximum allocation to investment grade securities is 2% on a market value basis.~~
  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.



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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 three- to five-year periods of 0.3 or better.
  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.
- ~~• Managers may enter into repurchase agreements collateralized 102% with U.S. government securities. The maximum term of these agreements will be 90 days and the collateral must be marked to market daily. Repurchase agreements are permitted as a substitute for cash with a maximum allocation of 5%.~~
  - ~~• Portfolio cash balances shall be invested in the Cash Reserve Account established by the master custodian bank unless specific written permission to invest elsewhere is granted by the Treasurer.~~

#### Diversification

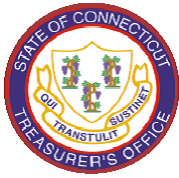
- ~~• Diversification should be maintained at all times; with the exception of securities guaranteed by the U.S. federal government or its agencies, securities of a single issuer should not exceed 5% of the portfolio market value.~~

#### Communications, Reporting & Notification

##### 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.



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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

- ~~Any significant change in investment strategy of an external manager will be communicated to the Treasurer.~~

##### A. Statement of Purpose

- ~~Any significant change in ownership or key personnel of an external 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.~~

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.

- ~~Performance results, portfolio listings, and valuations must be provided on a quarterly basis.~~

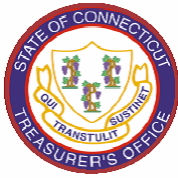
##### B. Description of the Fund

- ~~Portfolio accounting will be reconciled to the master custodian on a monthly basis, in a manner prescribed by the Treasurer.~~

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:



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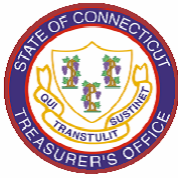
1. Provide diversification benefits to the CRPTF performance.
2. Achieve cumulative performance results that rank in the top third of high yield debt managers over rolling three- to five-year periods.
3. Generate strong risk-adjusted returns, as measured by the information ratio (excess return divided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

#### 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 ~~VIX~~. 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.

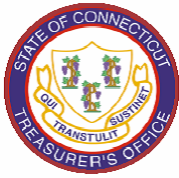
##### C. Performance Benchmark and Objectives ~~of the Fund~~:

Over a market ~~eye~~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 ~~for Investment Advisors~~:

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

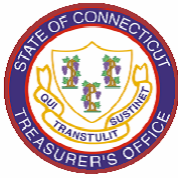
1. At the time of ~~investment~~investment, mortgage loans shall provide yields of at least 125 basis points in excess of comparable maturity treasury bonds.
2. Mortgage loans shall have the characteristics of fixed income securities and be responsive to changes in domestic interest rates.
3. Investment ~~advisors~~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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#### **Article ~~VI.~~ Asset Class Guidelines ~~X.~~ Real Estate Fund<sup>2</sup>**

~~Note: The following guidelines were approved by the IAC on September 12, 2003 and adopted by the Treasurer on September 12, 2003.~~

##### A. Statement of Purpose

##### **Fund Benchmark**

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.

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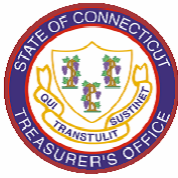
~~The Real Estate Fund's ("REF" or the "Fund") portfolio performance shall be benchmarked against the total rate of return of the National Council of Real Estate Investment Fiduciaries Property Index ("NCREIF Property Index"). Additional criteria will be applied to the performance of individual managers, investments having a focus on a particular property sector or geographic location and for investments having higher risk strategies. Investments in publicly traded Real Estate Investment Trusts ("REIT"s) and real estate operating companies ("REOC"s) are expected to outperform the National Association of Real Estate Investment Trusts Composite Index ("NAREIT Composite Index").~~

##### B. Description of the Fund

##### **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.

<sup>2</sup> These guidelines supersede PART I, Article V, Section D.1, the Asset Class Definition for the Real Estate Fund.



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~~The Fund is the vehicle by which the CRPTF makes investments in the real estate asset class. The Fund 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. These investments shall be primarily equity orientated but may also include fixed income investments in real estate, such as mortgages.~~

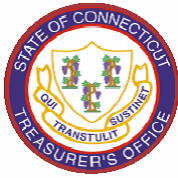
~~All investments in real estate assets are expected to adhere to the standards of fiduciary obligation to the beneficiaries of the CRPTF, and shall be considered in the context of the relevant risk/reward factors of this asset class and consistent with the statutory requirements for consideration of investments by the Treasurer in accordance with Section 3-13d(a) of the Connecticut General Statutes. These investments will also adhere to the Responsible Contractor Policy included as an exhibit to this document. 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

~~The Fund shall comply with the guidelines as approved by the IAC for CRPTF’s asset allocation to the real estate asset class. The real estate allocation may be amended from time to time. If the Fund’s actual allocation falls outside these policy allocation targets, the CRPTF will reallocate capital, as dictated by prudence, to come into compliance with the asset allocation guidelines. The Fund shall move tactically within the recommended allocation range for real estate in response to changes in market conditions, the Fund’s return objectives and liquidity requirements, as well as other relevant factors.~~

~~From time to time, the actual allocation to the real estate asset class may not fall within the recommended range. In these instances, adjustments from actual to the prescribed allocation range shall be implemented over a reasonable time frame (within a one to three year period, unless otherwise specified) and with ample consideration given to preserving investment returns to the CRPTF.~~

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



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minimized, and (iii) adhere to the fiduciary standards delineated in Part I of the IPS.

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

#### *Responsibilities and Delegations of Authority:*

~~The investment of the Fund’s assets shall be the primary responsibility of the Treasurer, and will be carried out in conjunction with the IAC, taking into account the overall CRPTF investment policy. The Treasurer shall have responsibility for the management and administration of the Fund’s real estate investments.~~

#### **Investment Objectives**

~~The strategic objectives of the REF are the following:~~

- ~~1. To provide diversification to the overall CRPTF investment program.~~
- ~~2. To preserve investment capital and generate attractive risk-adjusted rates of return.~~
- ~~3. To provide consistent current income to the CRPTF.~~
- ~~4. To provide a hedge against inflation.~~

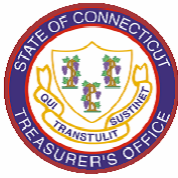
~~Expected returns for CRPTF’s real estate investments shall be: (i) at minimum, CRPTF’s actuarially determined assumed rate of return and (ii) competitive, on a risk-adjusted basis, with other asset classes in which the CRPTF invests. Expected returns for each of the CRPTF’s real estate investments shall also be commensurate with the attendant risks associated with each investment.~~

~~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) consider solely the interests of the CRPTF’s participants and beneficiaries.~~

#### **Fund Structure**<sup>3</sup>

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<sup>3</sup>Including up to 5% of the REF for partnerships targeting underserved geographical areas and populations, with a focus on Connecticut.



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~~The REF shall be divided in four segments, the Core Portfolio, the Value Added Portfolio, the Opportunistic Portfolio and the Publicly Traded 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.~~

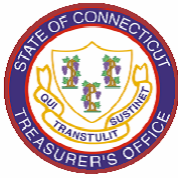
~~The Value Added Portfolio is expected to produce higher returns than the Core Portfolio, subject to an incrementally greater amount of risk, thereby enhancing the overall performance of the REF. The Value Added Portfolio is expected to provide solid income and greater levels of appreciation than anticipated 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.~~

~~The Publicly Traded Portfolio is intended to provide performance in excess of the NAREIT Composite Index. The Publicly Traded Portfolio is expected to enhance performance and liquidity to the REF as well as contribute to the portfolio's diversification. Furthermore, investments in publicly traded real estate investments can provide the REF with access to some property types in which exposure is difficult to obtain due to the nature or size of the individual assets (i.e. regional malls).~~

~~*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. As a moderate risk investor and given the CRPTF's current requirements for cash flow and liquidity, the REF's target allocations to the Core, Value Added, Opportunistic and Publicly Traded Portfolios shall be:~~



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Portfolio Segment	Allocation Range	Target Allocation
Core	50% to 70%	60%
Value-Added	5% to 25%	15%
Opportunistic	5% to 25%	15%
Publicly Traded	0% to 20%	10%

~~From time to time, the actual allocation to the Core, Value-Added, Opportunistic, and Publicly Traded Portfolios may not fall within the recommended range. In these instances, adjustments from actual to the prescribed allocation range shall be implemented over a reasonable time frame (within a one to three year period, unless otherwise specified) and with ample consideration given to preserving investment returns to the CRPTF.~~

#### ~~Characteristics of Core Portfolio Investments:~~

~~The Core Portfolio is expected to produce market level returns over time with a commensurate level of risk. Performance is expected to mirror the composite NCREIF Property Index, on a net of fee basis. Income is expected to make up the majority of the total return for the Core Portfolio.~~

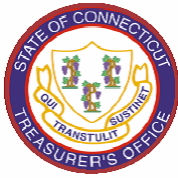
~~To mitigate risk, the Core Portfolio shall be well diversified by property type, geography and, to the extent feasible, by manager. Usually, investments in the Core Portfolio shall be limited to office, retail, industrial and apartment properties. The Core Portfolio may also include limited investment in “other” property types that are generally considered non-core.~~

~~Typical Core Portfolio properties shall exhibit “institutional” qualities. Generally, they are well located within their local and regional markets, of high quality design and construction and have significant occupancy levels. Leverage may be used in the Core Portfolio on a limited basis to enhance investment returns. Leverage within the Core Portfolio will have a targeted guideline of 30% or less of the aggregate net assets. Consideration shall be given to the impact of debt financing on the risk and return characteristics of the leveraged investments as well as the total Core Portfolio.~~

#### ~~Characteristics of Value-Added Portfolio Investments:~~

~~The Value-Added Portfolio is expected to produce above market level returns over time. Performance is expected to exceed the NCREIF Property Index, on a net of fees basis, by 200 basis points. While income is expected to be a part of the total return for the Value-Added Portfolio, appreciation may be the source for much of the total return.~~

~~The Value-Added Portfolio contains investments with expected returns in excess of investments contained within the Core Portfolio in addition to commensurately higher risk. Value-Added Portfolio investments involve efforts to increase property value such~~



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~~as releasing, repositioning, redevelopment, or development, as well as higher levels of debt. Value-Added investments may include traditional and non-traditional property types (e.g. hotels, mini-storage, senior housing, timber, etc.).~~

#### *~~Characteristics of the Opportunistic Portfolio:~~*

~~The Opportunistic Portfolio is expected to produce above market level returns over time. Performance is expected to exceed the NCREIF Property Index, on a net-of-fees basis, by 500 basis points.~~

~~Opportunistic Portfolio investments are often in niche opportunities (e.g. distressed debt, mezzanine debt, hospitality, etc.) or exist because of inefficiencies in the real estate or capital markets. In addition, the Opportunistic Portfolio may contain investments in special purpose properties with a narrow user market (e.g., mobile home parks and parking structures). Investment strategies for the Opportunistic Portfolio are characteristically “tactical” in nature and are based on prevailing market conditions at the time of investment. International investments are also a part of the Opportunistic Portfolio.~~

~~Within the Opportunistic Portfolio, expected returns may vary considerably, based on differences in investment program strategies and structures, and the level of risk associated with each program, among other factors. As noted above, investments included in the Opportunistic Portfolio are likely to generate limited current income. The bulk of the return on these investments is expected to come from appreciation. Moderate to high levels of leverage may be also employed by some programs to augment investment performance.~~

#### *~~Characteristics of the Publicly Traded Portfolio:~~*

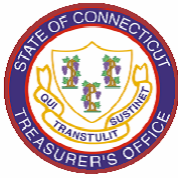
~~The Publicly Traded Portfolio is expected to deliver performance in excess of the NAREIT Composite Index. Publicly traded real estate investments are typically more volatile than their private market counterparts, however, liquidity is greater. The Publicly Traded Portfolio is expected to be well diversified and include a wide array of property types. Generally speaking, investments will be limited to publicly traded real estate investment trusts and real estate operating companies owning office, retail, industrial, apartment, healthcare, mobile homes, self storage, hotels and R&D properties.~~

#### **Investment Guidelines**

~~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.~~

~~To the extent possible, the Fund shall adhere to the following investment guidelines:~~





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##### *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 preapproved guidelines for that 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.~~

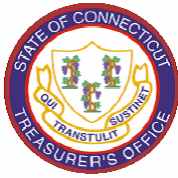
##### *Alignment of Interests:*

~~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:*

~~The Fund shall employ leverage in the real estate portfolio in order to enhance investment returns. Such leverage may be at the portfolio, manager or investment level. In order to utilize debt in this manner, positive arbitrage should exist at the investment entity level. Because leverage also increases the volatility of the real estate portfolio, careful consideration will be given to the impact of leverage on investment and portfolio risk. In addition, limitations on the amount of leverage at the individual asset or investment entity level as well as debt service coverage requirements will be negotiated or arranged wherever possible.~~

~~Leverage at the aggregate Fund level should be limited to 50%. To preserve the character of the asset class within CRPTF’s composite investment portfolio, the aggregate asset class shall not be over leveraged. 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. Specifically, leverage in the Core Portfolio will be targeted at 30% or less. In the Value Added and Opportunistic Portfolios, certain investments may be highly leveraged, however, the leverage maximum shall be that amount which would cause the aggregate Fund leverage to exceed 50%. To the extent leverage in any portfolio exceeds the maximum, the Fund shall make all reasonable~~



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~~efforts to reduce the leverage ratio to below the maximum allowable amount within a reasonable time frame.~~

#### *Liquidity:*

~~Real estate investments shall be structured to include clearly defined redemption provisions that offer investors liquidity. In addition, whenever possible, investments shall include features that enhance liquidity to investors such as, (i) shorter investment time horizons and holding periods, (ii) provisions for interim liquidation of investments, (iii) multiple exit strategies, (iv) alignment of interests between management and investors as well as management accountability and (v) a readily tradable market for investor holdings.~~

#### *Valuations:*

~~The Fund's separate account managers will be responsible for the ongoing valuations of each property or investment in their respective portfolios. Investment managers shall value all investments at least annually using internal valuations. Independent third party valuations shall be obtained, at a minimum, every three years or on an as needed basis in any CRPTF separate account portfolio. The third party appraiser selection and engagement process will incorporate a competitive bidding process amongst qualified firms. An appraiser will not be utilized for more than three consecutive independent valuation engagements on a particular investment.~~

~~In commingled funds, CRPTF shall review the manager's proposed valuation policy and request that each investment be valued at least annually using internal valuations. Core and value added funds may secure third party appraisals, but the opportunistic funds generally value investments using internal valuations.~~

#### **Eligible Investment Vehicles**

~~The selection of appropriate investment vehicles will focus on structural aspects that provide for (i) maximum liquidity and control, while mitigating risk and (ii) the highest level of accountability on the part of management and (iii) alignment of interests. Such criteria are critical to the Fund's ability to meet its objectives in the real estate asset class. For this reason, the following investment vehicles are allowable:~~

#### *Commingled Vehicles:*

~~To enable greater diversification and to reduce risk, investments in the real estate portfolio shall be made in participation with other institutional investors. Real estate investments shall be made in commingled vehicles including, but not limited to: (i) closed end funds such as group trusts and limited partnerships, (ii) open end funds (primarily bank and insurance company commingled accounts), (iii) private REITs and REOCs, and (iv) public REITs and REOCs.~~



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~~Investments in closed-end commingled vehicles shall have clearly articulated and viable exit strategies through which assets can be disposed of or liquidated upon termination of the investment and on an interim basis. The term of these investments shall also be limited to no more than seven to ten years and shall provide for a winding-up and orderly liquidation within this time period. Investment agreements for closed-end commingled vehicles shall include flexible provisions for removal of management by investors and interim liquidation of investor holdings.~~

~~Open-end commingled fund investment shall include flexible redemption provisions, though such provisions often do not provide investors with liquidity at times when it is most needed. Therefore, it is critically important that such investments be made with the most proactive of managers. In addition, to the extent possible, investments in closed and open-end commingled fund vehicles shall include an opportunity for investors to participate on advisory boards.~~

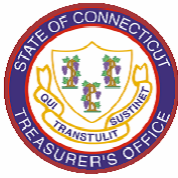
~~To ensure adequate diversification and to reduce risk, no more than 10% of the CRPTF real estate portfolio shall be allocated to any one individual commingled fund in which CRPTF does not exercise control over its capital. For the purpose of this document, control over its capital refers to the ability to (i) time the exit from an investment vehicle or (ii) terminate the manager of such vehicle.~~

#### ~~Public and Private REITs and REOCs:~~

~~Public and private REITs and REOCs can provide the REF with greater access to property markets and assets as well as captive and focused management in a structure that includes corporate governance. These types of investments may offer additional benefits to the Fund in the way of opportunities to share in the operators' fee income and franchise value. Investments in private companies often offer multiple exit strategies that include a public listing, merger or portfolio sale. Though investments in publicly traded vehicles can offer the Fund greater liquidity over private market opportunities, they are more highly correlated with equities than private real estate investments. As such, the maximum allocation to publicly traded REITs or REOCs in the real estate portfolio shall be 20%. However, the actual allocation to publicly traded REITs or REOCs at any point in time could be substantially less than these amounts, or even zero. The balance of the real estate portfolio shall be invested in private market investments.~~

~~Investments in publicly traded REITs and REOCs shall be made through investment managers as part of a structured investment program [such programs may include both long and short positions (short positions not to exceed 30% of the respective portfolio) as well as options (for defensive positioning only)].~~

~~From time to time, the Fund may acquire investments in publicly traded REITs or REOCs by way of dissolution or restructuring of its private market investments. These investments shall be placed under the management of a suitable investment manager.~~



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~~Investments that are deemed inappropriate for the Fund shall be liquidated in a reasonable time frame.~~

~~Investments in publicly traded REITs and REOCs will be monitored for compliance with the statutory cap on common stock.~~

#### ~~Separate Account Vehicles:~~

~~The REF may invest in separate account vehicles that allow the Fund 100% ownership and control of direct investments. However, such separate account vehicles shall not be the primary or preferred investment vehicle of the Fund (due to the current size of the Fund and the diversification difficulties associated with small separate accounts). Accordingly, prudent care shall be taken to ensure that diversification of such an account is not detrimental to the overall real estate portfolio.~~

#### Eligible Investment Types

~~Equity real estate investments may include direct or indirect equity investment in real estate (including all rights and interests incident thereto) such as: (i) interests in corporations, partnerships and other entities whose primary business is the acquisition, development and operation of real property including publicly traded or private REITs and REOCs, (ii) participating or convertible participating mortgages or other debt instruments convertible to equity interest in real property based on investment terms (and not merely by foreclosure upon default), (iii) options to purchase real estate, leaseholds, and sale leasebacks, (iv) all other real estate related securities such as lower or un-rated tranches of pre-existing securities or structured debt instruments, which have equity features.~~

~~Leveraged equity investments are permissible. Properties may also be acquired subject to ground leases and reversionary interests may be acquired in properties subject to ground leases.~~

~~International investments are permitted for the Opportunistic Portfolio given appropriate review of the experience and strength of potential investment management organizations, and the real estate and capital markets, practices and laws of countries considered for such investment, among other factors.~~

#### Management of the Fund

~~The Treasurer, in consultation with the IAC, shall select the advisors 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~~



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~~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 Advisor:~~*

~~To reduce risk, the REF shall be diversified by investment management organization. No single investment management organization shall manage more than 40% of the market value of the REF allocation.~~

#### *~~Diversification by Geography:~~*

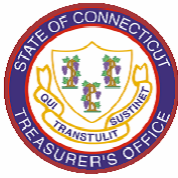
~~To reduce risk, investments in the real estate portfolio shall be (i) well diversified by geography and (ii) primarily located in the United States. The allocation ranges for real estate located in the United States versus overseas shall be 80% to 100% to the United States and 0% to 20% to real estate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

~~It should be noted that these target geographic region allocation ranges are based on the NCREIF Property Index (as of March 31, 2002) and may change over time as the composition of the NCREIF Property Index changes. As such, periodic adjustments to these target ranges may need to be made based on changes in the benchmark.~~

~~The distribution of states by region as included in the NCREIF Property Index is in Appendix I of the Guidelines.~~



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~~While there are no specific guidelines for diversification based on exposure to geographies having similar economic profiles and/ or industry concentrations, the real estate portfolio shall be prudently diversified and monitored with regard to this aspect.~~

#### *~~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%

~~It should be noted that these target property type allocation ranges are based on the NCREIF Property Index (as of March 31, 2002) and may change over time as the composition of the NCREIF Property Index changes. As such, periodic adjustments to these target ranges may need to be made based on changes in the benchmark.~~

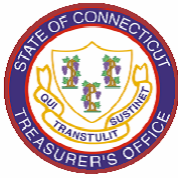
#### *~~Diversification by Investment Life Cycle:~~*

~~The basic phases of a property’s life cycle include predevelopment, development, initial leasing, operating and redevelopment, as defined in Appendix. In general, properties in the earlier stages of their respective life cycles and redevelopments possess greater risks and thus should offer the Fund incrementally higher expected returns.~~

~~To reduce risk, the real estate portfolio shall be appropriately diversified according to life cycle with the Core Portfolio having a majority of investments in operating properties that are substantially leased. The Opportunistic Portfolio may contain a higher concentration of investments undergoing redevelopment or development.~~

#### *~~Diversification by Investment Size:~~*

~~To mitigate risk within the real estate portfolio, the following standards shall apply. First, with regard to publicly traded real estate securities, the Fund’s holdings of any single publicly traded real estate security shall be limited to no more than 5% of the Fund. Second, with regard to private market real estate investments, the Fund’s holdings of any private market commingled real estate investment shall be limited to no more than 10% the of outstanding equity capitalization of the vehicle at the time of investment. This may increase to no more than 20% of the outstanding equity capitalization of the vehicle over the life of the investment. Larger holdings may be deemed appropriate if the Fund receives commensurate control premiums associated with the investment. In these circumstances, a limit on Fund holdings shall be established on a case by case basis.~~



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##### *~~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.~~

##### *~~Dollar Cost Averaging:~~*

~~To reduce market risk, the Fund shall employ dollar cost averaging, or buying into investments over a period of time rather than all at once. More specifically, with regard to higher risk investments such as Value Added and Opportunistic investments, the Fund shall endeavor to own Value Added and Opportunistic investments that are diversified by vintage year.~~

#### **Guidelines for Selection, Monitoring, Evaluation and Termination of Managers**

~~The selection of real estate investments shall be guided by the "prudent expert" standard, embracing the prudent decision making process typically employed by experts in the areas of real estate acquisition, development, operation, disposition, and portfolio management.~~

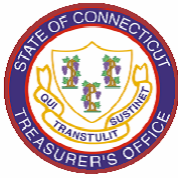
##### *~~Selection Procedures:~~*

~~The selection process for real estate investments and management organizations will be established by the Treasurer in consultation with and subject to the approval of the IAC. The investment selection process is included herein as an exhibit to this document.~~

##### *~~Selection of Investment Management Organizations:~~*

~~The Fund 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~~





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~~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 appropriateness of management controls and reporting systems, among other factors; and (vi) commitment to responsible contracting policies, workplace diversity and community involvement.~~

~~The Fund will give preference to Connecticut-based, minority and women-owned or emerging organizations and to funds that will invest in under-served urban areas, provided such firms and funds will be subject to the selection criteria noted above. In the case of emerging firms, the longevity of the organization's management team will, by definition, be de-emphasized.~~

#### *Monitoring, Evaluation and Termination of Investment Management Organizations:*

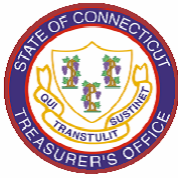
~~The Fund's investment management organizations shall be monitored and evaluated on an on-going basis based on their performance relative to stated objectives and benchmarks, and relative to the performance of firms managing similar investments in the marketplace. In addition, investment management organizations shall be monitored for compliance with investment guidelines, policies and procedures of the Fund and other contractual provisions. Manager performance should be evaluated over meaningful time intervals to ensure that performance is indicative of management's efforts. The performance of the Core and Publicly Traded Portfolio investments should be evaluated on a three-year trailing performance basis, while the performance of the Value Added and Opportunistic Portfolio investments should be evaluated on a three to five year trailing performance basis.~~

~~Consideration shall also be given to the financial strength of the investment management organization, the level of client service given CRPTF as well as changes within the management organization such as the continuity of personnel assigned to the Fund's investments, among other items. The Fund shall seek to liquidate investments with management organizations found to be deficient relative to the Fund's standards.~~

#### **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~~





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~~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**

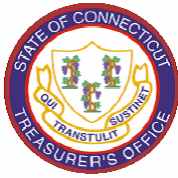
~~A comprehensive performance measurement report for the real estate portfolio shall be prepared on a quarterly basis (“Performance Report”).~~

~~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.~~

~~The Pension Funds Management Staff (“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 managers do not report on the Fund’s investments in a manner consistent with the Fund’s guidelines, Staff shall work with these managers to obtain the most appropriate information. The Fund’s managers shall be notified at the inception of their contracts that the failure or inability of the manager to provide accurate and timely financial reporting including performance results computed in a manner consistent with AIMR guidelines may constitute grounds for termination.~~

#### **Review and Modification of Real Estate Investment and Management Guidelines**

~~The guidelines contained herein shall be reviewed periodically to determine if modifications are necessary or desirable. Any changes shall be subject to the approval of the IAC.~~



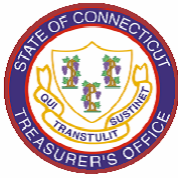
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**Appendix I**

**Distribution of States by NCREIF Regions and Sub-regions**

<b><u>West Region</u></b>	<b><u>Midwest Region</u></b>	<b><u>East Region</u></b>	<b><u>South Region</u></b>
<b><u>Mountain</u></b> Arizona Colorado Idaho Montana Nevada New Mexico Utah Wyoming	<b><u>East North Central</u></b> Illinois Indiana Michigan Ohio Wisconsin	<b><u>Northeast</u></b> Connecticut Maine Massachusetts New Hampshire New Jersey New York Pennsylvania Rhode Island Vermont	<b><u>Southeast</u></b> Alabama Florida Georgia Mississippi Tennessee
<b><u>Pacific</u></b> Alaska California  Hawaii Oregon Washington	<b><u>West North Central</u></b> Iowa Kansas  Minnesota Missouri Nebraska North Dakota South Dakota	<b><u>MidEast</u></b> Delaware District of Columbia Kentucky Maryland North Carolina South Carolina Virginia West Virginia	<b><u>Southwest</u></b> Arkansas Louisiana  Oklahoma Texas

~~Note: Information above based on NCREIF Property Index as of March 31, 2002.~~



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART III – COMBINED INVESTMENT FUNDS

### Appendix II

#### Definitions

~~**Appreciation Return** is the percentage change in the market value of a property or portfolio adjusted for capital improvements and partial sales, over a period of analysis.~~

~~**Convertible Participating Mortgage** is an investment structure wherein the lender's (CRPTF) return consists of mortgage interest plus potential contingent interest expressed as a percentage of property operating cash flow and/or property appreciation upon sale or refinancing and where the lender has an option to convert a portion or all of the loan balance into a percentage of equity.~~

~~**Income Return** is the component of return derived from property or portfolio operations during a period of analysis, expressed as a percentage of property market value.~~

~~**Leverage** is the use of fixed cost funds (or debt) to acquire or develop an income-producing property.~~

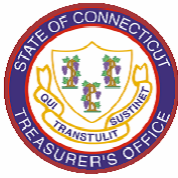
~~**Leveraged Equity Investment** refers to investments in real estate in which the investor (CRPTF) has an equity interest and the purchase or ownership of the investment is or partially financed with debt.~~

#### **Life Cycle Definitions:**

- ~~**Pre Development** refers to raw land.~~
- ~~**Development** refers to properties under construction, including the preparation and installation of infrastructure.~~
- ~~**Initial Leasing** is completed construction that is less than 60% leased, and that has been available for occupancy for one year or less.~~
- ~~**Operating** are properties that have achieved 60% leased status since construction, or that have been available for occupancy for more than one year.~~
- ~~**Redevelopment** refers to properties that are undergoing substantial expansion or retenanting, rehabilitation or remodeling.~~

~~**Participating Mortgage** is an investment structure wherein the lender's (CRPTF) return consists of mortgage interest plus potential contingent interest expressed as a percentage of property operating cash flow and/or property appreciation upon sale or refinancing.~~

~~**Real Estate Investment Trust ("REIT")** refers to a private or publicly traded company which typically invests in income producing properties and which qualifies as a REIT under Sections 856-860 of the Internal Revenue Code of 1986. As a REIT, a company must distribute to its shareholders at least 95% of its taxable income and is not subject to~~



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

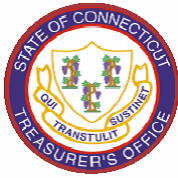
#### PART III – COMBINED INVESTMENT FUNDS

~~federal (and typically state) income tax to the extent income is distributed, among other requirements.~~

~~**Risk-Adjusted Rate of Return** is the Total Return adjusted for volatility of returns over time. That is, for two investments having an equal Total Return over an investment period, that investment which experiences the least volatility of returns has the higher risk-adjusted rate of return. The standard calculation of risk-adjusted rate of return is the “Sharpe Ratio” defined as the difference between the investment return and the average U.S. Treasury Bill rate over the same period, divided by the standard deviation of the investment return over the period.~~

~~**Total Return** is the sum of the Appreciation Return and Income Return.~~

~~**Unleveraged Equity Investment** refers to real estate investments in which the investor (CRPTF) has an ownership interest and the purchase or ownership of the investment is financed without the use of debt. The term “equity investment” in real estate is generally used in contrast with conventional mortgage investments.~~



# INVESTMENT POLICY STATEMENT

## State of Connecticut Retirement Plans & Trust Funds

### PART III – COMBINED INVESTMENT FUNDS

#### **EXHIBIT 1**

### **STATE OF CONNECTICUT RETIREMENT PLANS & TRUST FUNDS 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.~~



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART III – COMBINED INVESTMENT FUNDS

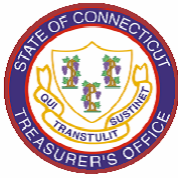
- ~~C. Competitive Return: To comply with duties of loyalty and prudence, all investments and services must be made and managed in a manner that produces a competitive risk-adjusted return.~~
- ~~D. Competitive Bidding: Contractors and their subcontractors for construction, maintenance, and services 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.~~

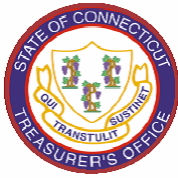


## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART III – COMBINED INVESTMENT FUNDS

- ~~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.~~
- ~~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.~~



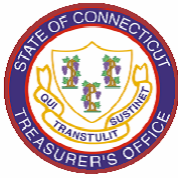
## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART III – COMBINED INVESTMENT FUNDS

- ~~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.~~
- ~~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.~~



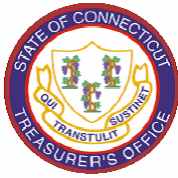


## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART III – COMBINED INVESTMENT FUNDS

- ~~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.~~
  - ~~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.~~



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

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~~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 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.~~

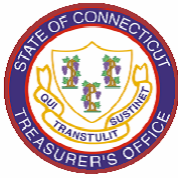
- ~~J. — Competitive Bidding: Property managers and contractors should give notice for applicable bids in local trade publications, bulletins, IAC’s and union building trades councils. Property managers should seek input from building trades councils to develop lists of Responsible Contractors for inclusion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



## INVESTMENT POLICY STATEMENT

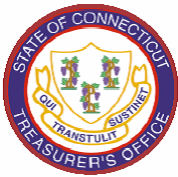
### State of Connecticut Retirement Plans & Trust Funds

#### PART III – COMBINED INVESTMENT FUNDS

~~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.~~

- ~~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.~~



# INVESTMENT POLICY STATEMENT

## State of Connecticut Retirement Plans & Trust Funds

### PART III – COMBINED INVESTMENT FUNDS

#### EXHIBIT 2

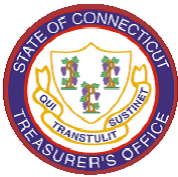
#### STATE OF CONNECTICUT RETIREMENT PLANS & TRUST FUNDS (CRPTF)

#### INVESTMENT SELECTION PROCESS- REAL ESTATE FUND

#### Part 1: For Investments not subject to RFI, RFP/or RFQ

#### INVESTMENT SELECTION PROCEDURES

Step	Time Frame	Process Step	Consultant/Other Involvement	Staff Involvement	Executive Office Involvement	IAC Involvement
1.	In-process.	Guidelines.	Consultant provides input/advice on development of appropriate Asset Class Guidelines-Real Estate Fund (the “Guidelines”). Along with the “Real Estate Fund Due Diligence Process”, these Guidelines detail CRPTF’s real estate strategy and procedures.	Staff develops Guidelines, based on consultant’s input, taking into account CRPTF’s legal constraints and fiduciary responsibilities.	Treasurer will review, modify, and ultimately adopt Guidelines for presentation to IAC. The Guidelines will be presented to the IAC as a draft and again in adopted form.	IAC reviews the Guidelines; offers comment and votes on whether to accept the Treasurer’s adopted Guidelines.
2.	Pending.	Log.	New Real Estate Fund offerings (private placement memoranda, or “PPM’s”) are sent to consultant for review.	Any PPM’s received directly by Staff will be forwarded to outside consultant for review.	Any PPM’s received directly by Executive Office may be referred to Staff, who will convey them to the consultant.	Any PPM’s or inquiries received by IAC members will be referred to Staff, who will convey them to the consultant.
3.	Pending.	Review.	Periodically, consultant prepares a “deal log” of all offerings received.	Deal log is received and reviewed for offerings from existing CRPTF general partners (“GP”)	A copy of the deal log is sent to the Treasurer.	None.
4.	Pending.	Screen.	For each PPM from an existing GP and for each PPM of interest from a GP with which CRPTF does not have an existing relationship, consultant prepares a brief (approximately 4-5 page) analysis/assessment and recommendation on whether to proceed with full due diligence.	Analysis is reviewed and recommendation is either seconded or an alternate opinion is offered.	Consultant’s written assessment and Staff comments are sent to Treasurer for either authorization to proceed with full due diligence or decision to pass.	None.
5.	After completion of Step 4. (All parts of this step may take 6-8 weeks).	Due Diligence and Recommendation.	Consultant proceeds with full due diligence on the offering, as outlined in “Real Estate Due Diligence Process”. This step includes a meeting with the prospective GP. Full report is sent to Staff. Staff makes recommendation on whether to invest and, if so, size of commitment.	Staff may participate in some portion of the due diligence process. Report is reviewed and cover memo with recommendation is prepared for Treasurer’s review.	Treasurer reviews report and recommendations and may elect to meet with the GP. Treasurer then makes a decision to either (1) proceed with a recommendation to the IAC or (2) decline the opportunity. If Treasurer decides to proceed, then process step 6 is taken.	None.
6.	Prior to next IAC meeting.	Notice to IAC.	None.	None.	Treasurer notifies IAC of recommendation to invest.	Informational materials regarding the Treasurer’s recommendation to invest are included in the IAC agenda package.



# INVESTMENT POLICY STATEMENT

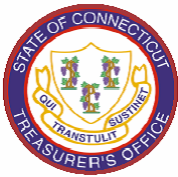
## State of Connecticut Retirement Plans & Trust Funds

### PART III – COMBINED INVESTMENT FUNDS

#### Part 1: For Investments not subject to RFI, RFP/or RFQ

#### INVESTMENT SELECTION PROCEDURES

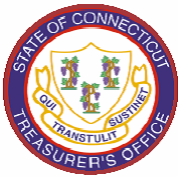
Step	Time Frame	Process Step	Consultant/Other Involvement	Staff Involvement	Executive Office Involvement	IAC Involvement
7.	Next IAC meeting.	Presentation of recommendation/ candidate interview.	None.	None.	Treasurer presents the investment opportunity and may make formal recommendation to the IAC. Candidate makes presentation of the fund's merits to IAC.	IAC reviews the investment and evaluates the recommendation.
8.	Within 45 days of Step 7.	IAC review and comment.	None.	None.	None.	IAC may file a written review of the Treasurer's recommendation with the Office of the Treasurer, where it will be available for public inspection.
9.	After receipt of IAC review and comment.	Decision.	None.	None.	Treasurer makes determination on whether to invest in the fund. If decision is to proceed, then process step 10 is taken.	Informed.
10.	Next several weeks	Contract negotiation.	Treasurer's General Counsel, in concert with the Attorney General's office, directs the engagement of outside legal counsel. Consultant and Staff receive and review documentation. Consultant assists with negotiation of terms and conditions as needed.	Staff analyzes/reviews documentation, provides advice, participates in negotiation.	Treasurer reviews key deal issues and makes final decisions on all major deal points.	Informed
11.	After completion of Step 10.	Closing.	Closing date is set. Deal is signed and funded.	Documents are finalized.	Treasurer signs partnership agreement.	Informed.



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

**EXHIBIT 2**  
**STATE OF CONNECTICUT RETIREMENT PLANS & TRUST FUNDS (CRPTF)**  
**INVESTMENT SELECTION PROCESS – REAL ESTATE FUND**  
**Part 2: For Investments subject to RFI, RFP/or RFQ**  
**INVESTMENT SELECTION PROCEDURES**

Step	Time Frame	Process Step	Consultant/Other Involvement	Staff Involvement	Executive Office Involvement	IAC Involvement
1.	Subsequent to adoption of REF IPS.	Determine investment types for which RFI, RFP and RFQ are to be utilized.	Consultant to provide recommendations consistent with Guidelines.	Staff to provide review, analysis and advice to Treasurer.	Treasurer makes decision regarding the issuance of RFI, RFP or RFQ.	Treasurer announces these processes to IAC.
2.	Subsequent to Treasurer's decision to issue RFI/RFP/RFQ.	Determine the target range of investment dollars to be allocated to these investment types.	Consultant to provide recommendation and supporting analysis.	Staff to provide review, analysis and provide advice to Treasurer.	Treasurer makes final decision regarding the specific parameters of the proposed RFI, RFP or RFQ.	Treasurer announces these processes to IAC.
3.	Subsequent to decision regarding the specific parameters of the proposed RFI/RFP/RFQ.	Development of RFI/RFP/RFQ.	Consultant to recommend selection process and criteria as well as the requisite qualifications.	Staff to review the selection process and criteria as well as the requisite qualifications and provide advice to Treasurer.	Treasurer to determine selection process and criteria as well as the requisite qualifications and present to IAC for approval.	Consider recommendation of Treasurer regarding the selection process and criteria.
4.	Subsequent to the determination of the selection process and criteria as well as the requisite qualifications.	Issuance of RFI/RFP/RFQ.	Consultant to recommend content of RFI/RFP/RFQ.	Staff to review the content of RFI/RFP/RFQ, provide advice to Treasurer and place RFI/RFP/RFQ.	Treasurer reviews RFI/RFP/RFQ and makes changes at her discretion	Informed.
5.	45 days after RFI/RFP/RFQ issuance.	Response deadline/Receipt of responses.	Consultant to receive and categorize by type. Summary/updates provided to Staff.	Staff to review summaries.	None.	None.



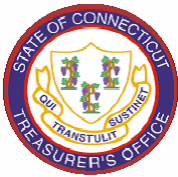
# INVESTMENT POLICY STATEMENT

## State of Connecticut Retirement Plans & Trust Funds

### PART III – COMBINED INVESTMENT FUNDS

#### Part 2: For Investments subject to RFI, RFP/or RFQ INVESTMENT SELECTION PROCEDURES

Step	Time-Frame	Process Step	Consultant/Other Involvement	Staff Involvement	Executive Office Involvement	IAC Involvement
6.	30 days after response deadline.	Screening of responses.	Consultant to report on responses and rankings of respondents.	Staff to review consultant reporting. Consultant reporting and Staff comments forwarded to Treasurer.	Treasurer to review consultant reporting and Staff comments.	None
7.	45 days after response deadline.	Selection of respondents for interview.	Consultant to review and comment on all qualifying respondents and recommend those to be interviewed.	Staff to review Consultant recommendations. Consultant recommendation and Staff comments forwarded to Treasurer.	Treasurer to review consultant reporting and Staff comments	None
8.	Between 60 and 90 days after response deadline.	Scheduling of respondent interviews.	Consultant to arrange and serve as lead participant in interviews.	Staff to assist with logistical support and participate in interviews.	Participate in interviews.	Participate in interviews.
9.	After completion of Step 8. (All parts of this step may take 6-8 weeks).	Due Diligence and recommendation.	Consultant proceeds with full due diligence, as outlined in "Real Estate Due Diligence Process." This step includes a meeting with the prospective GP/investment advisor candidate. Full report is sent to staff.	Staff may participate in some portion of the due diligence process. Report is reviewed and cover memo with recommendation on whether to invest, with whom and the size of the recommended commitment is prepared for Treasurer's review.	Treasurer reviews report and recommendation and may elect to meet with the prospective GP/investment advisor candidate. She then makes a decision to either (1) proceed with a recommendation of finalist(s) to the IAC or (2) declines to make such a recommendation. If she decides to proceed, then process step 10 is taken.	Informed.
10.	Prior to next IAC meeting.	Notice to IAC.	None.	None.	Treasurer notifies IAC of intent to present finalist(s).	Informational materials regarding the Treasurer's recommendation are included in the IAC agenda package.



# INVESTMENT POLICY STATEMENT

## State of Connecticut Retirement Plans & Trust Funds

### PART III – COMBINED INVESTMENT FUNDS

#### Part 2: For Investments subject to RFI, RFP/or RFQ ~~INVESTMENT SELECTION PROCEDURES~~

Step	Time-Frame	Process Step	Consultant/Other Involvement	Staff Involvement	Executive Office Involvement	IAC Involvement
11.	Next IAC meeting.	Presentation of finalist(s) interview.	None.	None.	Treasurer presents the finalist(s) and may make a formal recommendation to the IAC. Finalist(s) makes presentation to IAC.	IAC reviews the finalist(s) and evaluates the recommendation.
12.	Within 45 days of Step 11.	IAC review and comment.	None.	None.	None.	IAC may file a written review of the Treasurer's recommendation with the Office of the Treasurer, where it will be available for public inspection.
13.	After receipt of IAC review and comment.	Decision.	None.	None.	Treasurer makes determination on whether to invest with finalist(s). If decision is to proceed, then process step 14 is taken.	Informed.
14.	Next several weeks.	Contract negotiation.	Treasurer's General Counsel, in concert with the Attorney General's office, directs the engagement of outside legal counsel. Consultant and Staff receive and review documentation. Consultant assists with negotiation of terms and conditions as needed.	Staff analyzes/reviews documentation, provides advice, participates in negotiation.	Treasurer reviews key deal issues and makes final decisions on all major deal points.	Informed.
15.	After completion of Step 14.	Closing.	Closing date is set. Deal is signed and funded.	Documents are finalized.	Treasurer signs partnership agreement.	Informed.





## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds

#### PART III – COMBINED INVESTMENT FUNDS

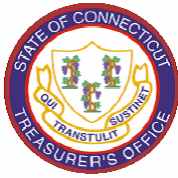
#### D. Investment Guidelines

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.
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.

#### Article VII. Asset Class Guidelines-Private Investment Fund



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#### Preamble

#### Article XI. Private Investment Fund

~~One of the concerns that led to the adoption of Public Act 00-43, which requires the formal adoption on an IPS was the decision-making process engaged in by former Treasurer Silvester in this particular asset class.~~

~~It is also the case that private equity investments have increasingly become an important part of the asset mix of large institutional investors. However, at the same time this is an asset class in which standards of accountability, industry contract terms and conditions, alignment of interests between general and limited partners, conflicts of interest standards, and the role of advisory boards are still evolving.~~

#### A. Statement of Purpose

~~Unfortunately, the CRPTF has learned too many of these lessons because appropriate standards were not in place during the Silvester Administration. The criteria, guidelines and process for the conduct of due diligence in this section of the IPS represent Treasurer Denise L. Nappier's and the entire IAC's commitment to specific, clear and transparent procedures for investment decisions in the private equity asset class.~~

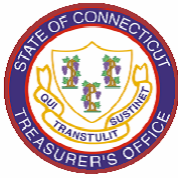
#### Fund Benchmark

~~The Private Investment Fund's ("PIF") Benchmark is Venture Economics All Private Equity. 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 PIEPIF investments will generally be made in externally managed separate accounts or limited partnerships or through separate accounts that focus on private equity investments. ~~Private equity investments include the following: venture capital funds (focusing on start-ups, early and expansion stage); mezzanine funds (investing in equity and debt instruments of established companies; buy-out and acquisition funds (which make controlling and non-controlling investments in established companies); special situation funds; and specialized or special purpose fund of funds focusing on, for example, venture capital partnerships too small to be otherwise appropriate for PIF.~~~~

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.



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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.

~~All investments in private equity partnerships shall adhere to 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. 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 PIF until such time that a duly elected Treasurer is officially sworn into office.~~

#### Investment Objectives

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

~~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. PIF is expected to earn total returns in excess of the inflation rate and reduce the impact of market volatility by diversifying the total asset base. The PIF provides diversification benefits to the CRPTF portfolio, as this asset class has historically low correlation to other asset classes, resulting in lower volatility of the total portfolio.~~

~~The primary objective of the PIF is to invest in PIF which offer the potential of generating annual returns, over a protracted period, which are five percentage points above the Standard & Poor 500 ten-year rolling average.~~

~~Private equity investments often do not report a positive return until the third through fifth year of operation; therefore, monitoring of new separate accounts or limited partnerships will initially be limited to how funds are committed. However, by the end of the fifth year each separate account or limited partnership is expected to be profitable and~~



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~~by the end of the tenth year the annualized rate of return of each separate account or limited partnership is expected to exceed the Standard & Poor 500 Index rate of return by five percentage points for the same period of time.~~

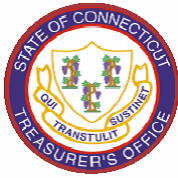
~~Private equity investments often do not report a positive return until the third through fifth year of operation. By the end of the fifth year, each separate account or limited partnership is expected to be profitable and by the end of the tenth year, the annualized rate of return of each separate account or limited partnership is expected to achieve the target returns outlined above.~~

#### 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~~



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partnership targeting under served geographical areas and populations with a focus on Connecticut, this restriction may be waived.

#### **Fund Structure**<sup>4</sup>

Given the long-term investment objectives of the fund, 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 table below outlines the policy target weightings (to be achieved over time) with regard to the variety of private equity funds:

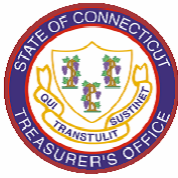
	<b>Policy Target %</b>	<b>Lower Range %</b>	<b>Upper Range %</b>
<b>Buyout</b>	<b>30</b>	<b>25</b>	<b>40</b>
<b>Venture Capital</b>	<b>30</b>	<b>25</b>	<b>40</b>
<b>Special Situation</b>	<b>20</b>	<b>5</b>	<b>30</b>
<b>Fund of Funds</b>	<b>10</b>	<b>0</b>	<b>15</b>
<b>Mezzanine</b>	<b>5</b>	<b>0</b>	<b>10</b>
<b>International</b> <sup>8</sup>	<b>5</b>	<b>0</b>	<b>10</b>

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. Lastly, the inclusion of this asset class, which has historically shown a low co-variance with public market returns, broadens the diversification of the CRPTF's total portfolio and should reduce the over-all risk profile.

The level of the PIF's commitment is limited to:

- No more than 10% of the CRPTF's total private equity program should be invested in any one fund; and,
- 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 specifically waived.

<sup>4</sup> Including up to 3% for partnerships targeting under served geographical areas and populations, with a focus on Connecticut.



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##### Investment Guidelines

~~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.~~

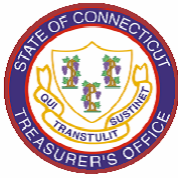
~~The managers' discretion regarding the selection of investments shall be limited by the Treasurer's exercise of her duty to consider the consequences of such discretion in accordance with state laws and as may be addressed in the IPS. Within that context, the Treasurer recognizes that private equity 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.~~

##### Eligible Investments

~~The following private equity strategies and investment types will be considered eligible for CRPTF's portfolio:~~

- ~~• Venture Capital – Early Stage: Seed or start-up equity investments in private companies.~~
- ~~• Venture Capital – Later Stage: Investments in more mature companies to provide funding for growth and expansion prior to IPO or acquisition.~~
- ~~• Venture Capital – Multi-Stage: Partnerships that employ a balanced strategy.~~
- ~~• Mezzanine – Investments in debt or debt with equity instruments of established companies.~~
- ~~• Buyouts – Partnerships that provide funding to acquire majority or controlling interests in a business or product lines from either a public or a private company.~~
- ~~• Special Situations – Partnerships with investment strategies that have merit, but where specific opportunities do not justify a separate long term strategic allocation.~~



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~~Specifically, Special Situations shall include, but not be limited to, distressed debt, turnaround funds, partnerships whose underlying characteristics bridge both buyouts and venture capital, and investments intended to provide capital to under served geographical areas and access to capital for small businesses, particularly those businesses owned by women and minorities.~~

- ~~• Fund of Funds—Investments in partnerships, which, due to size, strategy or other factors, are not appropriate direct investments for PIF. Specifically, Funds of Funds shall include, but not be limited to, investments intended to provide capital to under served geographical areas and access to capital for small businesses, particularly those businesses owned by women and minorities.~~

#### **Management of the Fund**

~~The Treasurer, in consultation with the IAC, shall decide on the selection of advisors for PIF. In the case of new managed account or partnership relationships, the IAC will have up to a 45-day period following presentation of the investment opportunity in which to file a written review of the Treasurer's recommendation. In the case of subsequent partnerships being raised by groups with which CRPTF has an existing relationship, the 45-day period of review and comment also applies. However, in either case the review period may be reduced, by agreement of the IAC, to meet a partnership closing. In all cases, 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 PIF.~~

#### **Diversification**

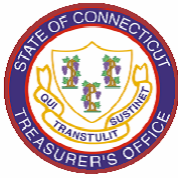
~~The PIF portfolio will be diversified with respect to time of investment commitment, geography, industry, strategy and stage focus. The private equity industry goes through cycles much like all the other investment asset classes. Given the illiquid nature of private equity investments, attempting to "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 buyouts, and the various components of special situations, all have independent market cycles, as do industries and geographic appeal. 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, CRPTF and its Advisor have recommended the following guidelines for the private equity portfolio.~~

#### **Geographical Diversification**





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~~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 major regional areas both domestically (e.g., West Coast, Southwest, Midwest, Southeast, Mid-Atlantic, Northeast) and internationally. However, in certain situations, a geographically targeted fund or fund of funds may be appropriate for the portfolio.~~

~~Allocation to international private equity investments should be considered within the context of the total portfolio's international allocation and should be limited to 15% 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 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 Sector 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.~~

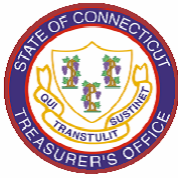
~~In summary, these diversification guidelines will provide the maximum return and safety of principal for the private equity portfolio over time.~~

#### **Guidelines for the selection of managers**

##### **~~New Portfolio Investments~~**

~~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.~~





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~~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:

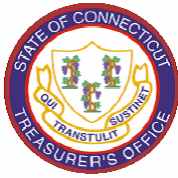
- ~~● General partners with experience as principals relevant to their investment strategy, and evidence of stability among the general partnership team;~~
- ~~● An attractive track record showing the following:
  - Ability to develop a successful portfolio;
  - An acceptable rate of return on investment 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;
  - Well defined and realistic strategies for the future;
  - Experience investing 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 (for —example, as may demonstrated by CRPTF's representation on advisory boards, —% 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 Buyout and Special Situations 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.~~



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##### ***Additional criteria for the consideration of first time and/or “spin-out” funds:***

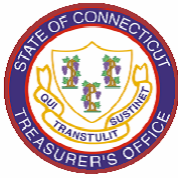
- Professional experience relevant to their investment strategy;
- Ability to find and participate in successful investments;
- Well-defined and realistic strategies for the future and a clearly defined mission for the fund;
- Background check of the general partners with colleagues, peers and subordinates,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

##### **Contracts with General Partners**

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.

##### **Communications, Reporting, & Notification**

- The PIF requires monthly reports containing data on activity, as well as various accounting reports. At the end of each quarter, the monthly report is also expected to contain comments on the portfolio’s results and expectations, as well as various accounting reports. The Fund will seek transparency across all its partnerships to ensure uniform accounting and reporting.
- Performance results, portfolio listings and valuations must be provided on a quarterly basis. Quarterly performance will be evaluated to test progress toward the attainment of longer-term targets.
- The fund will require annual independent audits of each partnership.



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#### ~~Article VIII. Asset Class Guidelines-Cash Reserve Account~~**XII. Liquidity Fund**

~~Note: The following guidelines were adopted May 13, 1998. As part of the Asset Allocation Plan approved by the IAC in August 1999 and reaffirmed in January 2001, a comprehensive review of this asset class is scheduled for calendar 2002.~~

##### 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..

~~The Cash Reserve Account (“CRA”) serves as a low cost and convenient cash management vehicle for the CRPTF and the various managers of the pension fund assets as well as a separate asset class of the pension fund.~~

##### 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

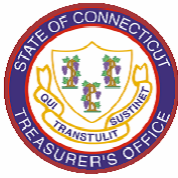
The benchmark for the LF will be one-month LIBOR.

##### **Description of the Fund**

~~CRA is a money market fund, which may be managed internally, investing primarily in highly liquid money market securities.~~

##### **Performance Objectives**

~~A yield in excess of the International Business Communications (“IBC”) First Tier Institutions Only Rated Money Fund Report Index is the basic performance objective of~~



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~~this fund. There is no preference for either current income or capital gains though, as with most money market funds, current income will constitute the bulk of the return. In addition, the CRA must have enough liquidity to fund all cash needs of participants and advisors. CRA shall maintain a market value close to cost.~~

#### Guidelines for Investment Advisors

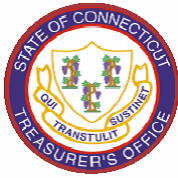
#### D. Maturity Restrictions are five year final for any singleGuidelines for Asset Fund

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.~~
6. shall adhere to the specific investment, security and one year average life for the entire Fund. The next reset period of a variable rate security is used only for the calculation of the average life of the entire Fund.
- ~~Advisors shall adhere to the specific investment 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

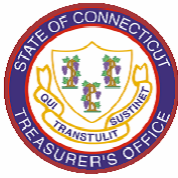
#### Securities Qualifying for Investment

1. ~~U. S. Government & Federal Agency securities.~~
2. ~~Certificates of deposit of commercial banks in the United States whose short term debt is rated at least A-1 by Standard & Poor's or TBW-1 (by Thompson Bank Watch) and whose long term debt is rated at least A- by Standard & Poor's and C by Thompson Bank Watch.~~
3. ~~Certificates of deposit of U.S. Branches of foreign banks with long term debt ratings of at least A-1 by Standard & Poor's or B/C by Thompson Bank Watch.~~
4. ~~Bankers' Acceptances of those banks meeting the criteria in 2 and 3 above.~~
5. ~~Repurchase Agreements with primary dealers as designated by the Federal Reserve or Connecticut banks, which meet the criteria of item 2.~~
6. ~~Commercial paper of companies that meet at least one of the following criteria:~~
  - a. ~~short term debt rated either: Moody's P-1, S&P A-1~~



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- ~~b. long term debt rated not less than: Moody's Aa3, S&P AA-~~
- ~~e. Commercial paper in foreign Financial Institutions denominated in US dollars rated not less than B/C by Keefe Bruyette.~~
- ~~7. Asset backed or insured commercial paper rated either: Moody's P-1, S&P A-1, or Duff & Phelps D-1~~
- ~~8. The purchase of foreign securities payable in foreign currencies is prohibited.~~
- ~~9. Short corporate bonds including asset backed securities rated not less than (by at least two): Moody's Aa2, S&P AA, Duff & Phelps AA.~~



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#### PART III – COMBINED INVESTMENT FUNDS

#### **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.

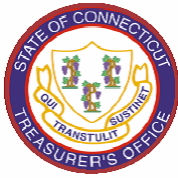
As currently detailed in this IPS, the development of the AIF will evolve over time. The Treasurer, in consultation with the IAC will further develop the description of the security types that will comprise the Fund, performance objectives, investment guidelines and the approach to hire investment management 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.



**INVESTMENT POLICY STATEMENT**  
State of Connecticut Retirement Plans & Trust Funds

**APPENDIX A**  
**SECTION I**

**PLANS AND TRUST FUNDS ASSET ALLOCATION**



**INVESTMENT POLICY STATEMENT**  
State of Connecticut Retirement Plans & Trust Funds  
APPENDIX A, SECTION I – RETIREMENT PLANS AND TRUST  
FUNDS ALLOCATION APPENDIX

**APPENDIX A, SECTION I-INTRODUCTION**

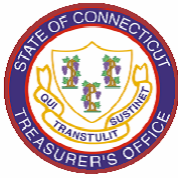
The following tables reflect the implemented recommendations from the 2006 asset liability study. This study differed significantly from the last study conducted in 1999-2000 as more analysis was done of each of the individual plans. It has become more evident since the last asset liability review that 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.

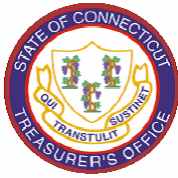




**INVESTMENT POLICY STATEMENT**  
 State of Connecticut Retirement Plans & Trust Funds  
 APPENDIX A, SECTION I – RETIREMENT PLANS AND TRUST  
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**State of Connecticut**  
**Teacher's Retirement Fund**  
**Asset Allocation Policy and Relative Ranges**

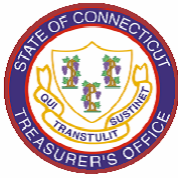
<b><u>Asset Class</u></b>	<b><u>Asset Allocation Target</u></b> <b><u>Range</u></b>		<b><u>Lower</u></b> <b><u>Bound</u></b>	<b><u>Upper</u></b> <b><u>Bound</u></b>
<b><u>Mutual Equity Fund</u></b>	<b><u>27%</u></b>	<b><u>24%</u></b>	<b><u>20%</u></b>	<b><u>32%</u></b>
<b><u>Developed Market International</u></b>				
<b><u>Stock Fund</u></b>	<b><u>21%</u></b>	<b><u>19%</u></b>	<b><u>15%</u></b>	<b><u>26%</u></b>
<b><u>Emerging Market International</u></b>				
<b><u>Stock Fund</u></b>	<b><u>9%</u></b>	<b><u>9%</u></b>	<b><u>6%</u></b>	<b><u>12%</u></b>
<b><u>Core Fixed Income Fund</u></b>	<b><u>14%</u></b>	<b><u>12%</u></b>	<b><u>12%</u></b>	<b><u>16%</u></b>
<b><u>Inflation Linked Bond Fund</u></b>	<b><u>6%</u></b>	<b><u>5%</u></b>	<b><u>4.5%</u></b>	<b><u>6.5%</u></b>
<b><u>Emerging Market Debt Fund</u></b>	<b><u>4%</u></b>	<b><u>4%</u></b>	<b><u>3%</u></b>	<b><u>5%</u></b>
<b><u>High Yield Bond Fund</u></b>	<b><u>2%</u></b>	<b><u>2%</u></b>	<b><u>1.5%</u></b>	<b><u>2.5%</u></b>
<b><u>Real Estate Fund</u></b>	<b><u>5%</u></b>	<b><u>5%</u></b>	<b><u>4%</u></b>	<b><u>6%</u></b>
<b><u>Private Equity</u></b>	<b><u>11%</u></b>	<b><u>11%</u></b>	<b><u>7%</u></b>	<b><u>15%</u></b>
<b><u>Alternative Investments</u></b>	<b><u>0%</u></b>	<b><u>8%</u></b>	<b><u>0%</u></b>	<b><u>10%</u></b>
<b><u>Liquidity Fund</u></b>	<b><u>1%</u></b>	<b><u>1%</u></b>	<b><u>0.5%</u></b>	<b><u>3%</u></b>
	<b><u>100%</u></b>	<b><u>100%</u></b>		



**INVESTMENT POLICY STATEMENT**  
 State of Connecticut Retirement Plans & Trust Funds  
 APPENDIX A, SECTION I – RETIREMENT PLANS AND TRUST  
 FUNDS ALLOCATION APPENDIX

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

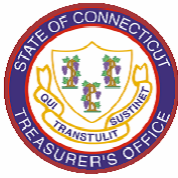
<b><u>Asset Class</u></b>	<b><u>Asset Allocation Target</u></b> <b><u>Range</u></b>		<b><u>Lower</u></b> <b><u>Bound</u></b>	<b><u>Upper</u></b> <b><u>Bound</u></b>
<b><u>Mutual Equity Fund</u></b>	<b><u>27%</u></b>	<b><u>24%</u></b>	<b><u>20%</u></b>	<b><u>32%</u></b>
<b><u>Developed Market International Stock Fund</u></b>	<b><u>21%</u></b>	<b><u>19%</u></b>	<b><u>15%</u></b>	<b><u>26%</u></b>
<b><u>Emerging Market International Stock Fund</u></b>	<b><u>9%</u></b>	<b><u>9%</u></b>	<b><u>6%</u></b>	<b><u>12%</u></b>
<b><u>Core Fixed Income Fund</u></b>	<b><u>14%</u></b>	<b><u>12%</u></b>	<b><u>12%</u></b>	<b><u>16%</u></b>
<b><u>Inflation Linked Bond Fund</u></b>	<b><u>6%</u></b>	<b><u>5%</u></b>	<b><u>4.5%</u></b>	<b><u>6.5%</u></b>
<b><u>Emerging Market Debt Fund</u></b>	<b><u>4%</u></b>	<b><u>4%</u></b>	<b><u>3%</u></b>	<b><u>5%</u></b>
<b><u>High Yield Bond Fund</u></b>	<b><u>2%</u></b>	<b><u>2%</u></b>	<b><u>1.5%</u></b>	<b><u>2.5%</u></b>
<b><u>Real Estate Fund</u></b>	<b><u>5%</u></b>	<b><u>5%</u></b>	<b><u>4%</u></b>	<b><u>6%</u></b>
<b><u>Private Equity</u></b>	<b><u>11%</u></b>	<b><u>11%</u></b>	<b><u>7%</u></b>	<b><u>15%</u></b>
<b><u>Alternative Investments</u></b>	<b><u>0%</u></b>	<b><u>8%</u></b>	<b><u>0%</u></b>	<b><u>10%</u></b>
<b><u>Liquidity Fund</u></b>	<b><u>1%</u></b>	<b><u>1%</u></b>	<b><u>0.5%</u></b>	<b><u>3%</u></b>
	<b><u>100%</u></b>	<b><u>100%</u></b>		



**INVESTMENT POLICY STATEMENT**  
 State of Connecticut Retirement Plans & Trust Funds  
 APPENDIX A, SECTION I – RETIREMENT PLANS AND TRUST  
 FUNDS ALLOCATION APPENDIX

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

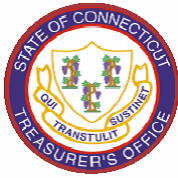
<b><u>Asset Class</u></b>	<b><u>Asset Allocation Target</u></b> <b><u>Range</u></b>		<b><u>Lower</u></b> <b><u>Bound</u></b>	<b><u>Upper</u></b> <b><u>Bound</u></b>
<b><u>Mutual Equity Fund</u></b>	<b><u>21%</u></b>	<b><u>17%</u></b>	<b><u>14%</u></b>	<b><u>25%</u></b>
<b><u>Developed Market International</u></b>				
<b><u>Stock Fund</u></b>	<b><u>16%</u></b>	<b><u>12%</u></b>	<b><u>9%</u></b>	<b><u>19.5%</u></b>
<b><u>Emerging Market International</u></b>				
<b><u>Stock Fund</u></b>	<b><u>8%</u></b>	<b><u>8%</u></b>	<b><u>5%</u></b>	<b><u>11%</u></b>
<b><u>Core Fixed Income Fund</u></b>	<b><u>20%</u></b>	<b><u>20%</u></b>	<b><u>19%</u></b>	<b><u>23%</u></b>
<b><u>Inflation Linked Bond Fund</u></b>	<b><u>10%</u></b>	<b><u>10%</u></b>	<b><u>9.5%</u></b>	<b><u>10.5%</u></b>
<b><u>Emerging Market Debt Fund</u></b>	<b><u>5%</u></b>	<b><u>5%</u></b>	<b><u>3%</u></b>	<b><u>7%</u></b>
<b><u>High Yield Bond Fund</u></b>	<b><u>2%</u></b>	<b><u>2%</u></b>	<b><u>1%</u></b>	<b><u>3%</u></b>
<b><u>Real Estate Fund</u></b>	<b><u>7%</u></b>	<b><u>7%</u></b>	<b><u>6%</u></b>	<b><u>8%</u></b>
<b><u>Private Equity</u></b>	<b><u>10%</u></b>	<b><u>10%</u></b>	<b><u>5%</u></b>	<b><u>15%</u></b>
<b><u>Alternative Investments</u></b>	<b><u>0%</u></b>	<b><u>8%</u></b>	<b><u>0%</u></b>	<b><u>10%</u></b>
<b><u>Liquidity Fund</u></b>	<b><u>1%</u></b>	<b><u>1%</u></b>	<b><u>0.5%</u></b>	<b><u>3%</u></b>
	<b><u>100%</u></b>	<b><u>100%</u></b>		



**INVESTMENT POLICY STATEMENT**  
 State of Connecticut Retirement Plans & Trust Funds  
 APPENDIX A, SECTION I – RETIREMENT PLANS AND TRUST  
 FUNDS ALLOCATION APPENDIX

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

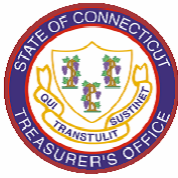
<b><u>Asset Class</u></b>	<b><u>Asset Allocation Target</u></b> <b><u>Range</u></b>		<b><u>Lower</u></b> <b><u>Bound</u></b>	<b><u>Upper</u></b> <b><u>Bound</u></b>
<b><u>Mutual Equity Fund</u></b>	<b><u>21%</u></b>	<b><u>17%</u></b>	<b><u>14%</u></b>	<b><u>25%</u></b>
<b><u>Developed Market International</u></b>				
<b><u>Stock Fund</u></b>	<b><u>16%</u></b>	<b><u>12%</u></b>	<b><u>9%</u></b>	<b><u>19.5%</u></b>
<b><u>Emerging Market International</u></b>				
<b><u>Stock Fund</u></b>	<b><u>8%</u></b>	<b><u>8%</u></b>	<b><u>5%</u></b>	<b><u>11%</u></b>
<b><u>Core Fixed Income Fund</u></b>	<b><u>20%</u></b>	<b><u>20%</u></b>	<b><u>19%</u></b>	<b><u>23%</u></b>
<b><u>Inflation Linked Bond Fund</u></b>	<b><u>10%</u></b>	<b><u>10%</u></b>	<b><u>9.5%</u></b>	<b><u>10.5%</u></b>
<b><u>Emerging Market Debt Fund</u></b>	<b><u>5%</u></b>	<b><u>5%</u></b>	<b><u>3%</u></b>	<b><u>7%</u></b>
<b><u>High Yield Bond Fund</u></b>	<b><u>2%</u></b>	<b><u>2%</u></b>	<b><u>1%</u></b>	<b><u>3%</u></b>
<b><u>Real Estate Fund</u></b>	<b><u>7%</u></b>	<b><u>7%</u></b>	<b><u>6%</u></b>	<b><u>8%</u></b>
<b><u>Private Equity</u></b>	<b><u>10%</u></b>	<b><u>10%</u></b>	<b><u>5%</u></b>	<b><u>15%</u></b>
<b><u>Alternative Investments</u></b>	<b><u>0%</u></b>	<b><u>8%</u></b>	<b><u>0%</u></b>	<b><u>10%</u></b>
<b><u>Liquidity Fund</u></b>	<b><u>1%</u></b>	<b><u>1%</u></b>	<b><u>0.5%</u></b>	<b><u>3%</u></b>
	<b><u>100%</u></b>	<b><u>100%</u></b>		



**INVESTMENT POLICY STATEMENT**  
 State of Connecticut Retirement Plans & Trust Funds  
 APPENDIX A, SECTION I – RETIREMENT PLANS AND TRUST  
 FUNDS ALLOCATION APPENDIX

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

<b><u>Asset Class</u></b>	<b><u>Asset Allocation Target</u></b> <b><u>Range</u></b>		<b><u>Lower</u></b> <b><u>Bound</u></b>	<b><u>Upper</u></b> <b><u>Bound</u></b>
<b><u>Mutual Equity Fund</u></b>	<b><u>21%</u></b>	<b><u>17%</u></b>	<b><u>14%</u></b>	<b><u>25%</u></b>
<b><u>Developed Market International</u></b>				
<b><u>Stock Fund</u></b>	<b><u>16%</u></b>	<b><u>12%</u></b>	<b><u>9%</u></b>	<b><u>19.5%</u></b>
<b><u>Emerging Market International</u></b>				
<b><u>Stock Fund</u></b>	<b><u>8%</u></b>	<b><u>8%</u></b>	<b><u>5%</u></b>	<b><u>11%</u></b>
<b><u>Core Fixed Income Fund</u></b>	<b><u>20%</u></b>	<b><u>20%</u></b>	<b><u>19%</u></b>	<b><u>23%</u></b>
<b><u>Inflation Linked Bond Fund</u></b>	<b><u>10%</u></b>	<b><u>10%</u></b>	<b><u>9.5%</u></b>	<b><u>10.5%</u></b>
<b><u>Emerging Market Debt Fund</u></b>	<b><u>5%</u></b>	<b><u>5%</u></b>	<b><u>3%</u></b>	<b><u>7%</u></b>
<b><u>High Yield Bond Fund</u></b>	<b><u>2%</u></b>	<b><u>2%</u></b>	<b><u>1%</u></b>	<b><u>3%</u></b>
<b><u>Real Estate Fund</u></b>	<b><u>7%</u></b>	<b><u>7%</u></b>	<b><u>6%</u></b>	<b><u>8%</u></b>
<b><u>Private Equity</u></b>	<b><u>10%</u></b>	<b><u>10%</u></b>	<b><u>5%</u></b>	<b><u>15%</u></b>
<b><u>Alternative Investments</u></b>	<b><u>0%</u></b>	<b><u>8%</u></b>	<b><u>0%</u></b>	<b><u>10%</u></b>
<b><u>Liquidity Fund</u></b>	<b><u>1%</u></b>	<b><u>1%</u></b>	<b><u>0.5%</u></b>	<b><u>3%</u></b>
	<b><u>100 %</u></b>	<b><u>100%</u></b>		



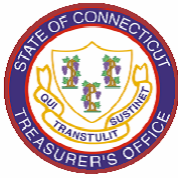
**INVESTMENT POLICY STATEMENT**  
State of Connecticut Retirement Plans & Trust Funds  
APPENDIX A, SECTION I – RETIREMENT PLANS AND TRUST  
FUNDS ALLOCATION APPENDIX

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

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

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

\*Formerly Mutual Fixed Income Fund



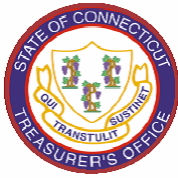
**INVESTMENT POLICY STATEMENT**  
 State of Connecticut Retirement Plans & Trust Funds  
 APPENDIX A, SECTION I – RETIREMENT PLANS AND TRUST  
 FUNDS ALLOCATION APPENDIX

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

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

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

\*Formerly Mutual Fixed Income Fund



**INVESTMENT POLICY STATEMENT**  
 State of Connecticut Retirement Plans & Trust Funds  
 APPENDIX A, SECTION I – RETIREMENT PLANS AND TRUST  
 FUNDS ALLOCATION APPENDIX

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

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

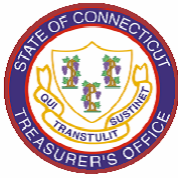
Note: Publicly listed common stock investments in U.S. equity securities are subject to a statutory limit of 60% of the AGRI's total portfolio.

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





**INVESTMENT POLICY STATEMENT**  
 State of Connecticut Retirement Plans & Trust Funds  
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**State of Connecticut**  
**Andrew C. Clark Fund**  
**Asset Allocation Policy and Relative Ranges**

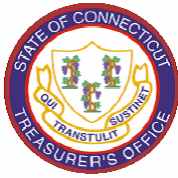
<u><b>Asset Class</b></u>	<u><b>Asset Allocation Target Range</b></u>	<u><b>Lower Bound</b></u>	<u><b>Upper Bound</b></u>
<u><b>Mutual Equity Fund</b></u>	<u><b>25%</b></u>	<u><b>20%</b></u>	<u><b>30%</b></u>
<u><b>Developed Market International Stock Fund</b></u>			
<u><b>Emerging Market International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

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



**INVESTMENT POLICY STATEMENT**  
 State of Connecticut Retirement Plans & Trust Funds  
 APPENDIX A, SECTION I – RETIREMENT PLANS AND TRUST  
 FUNDS ALLOCATION APPENDIX

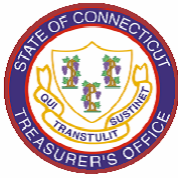
**State of Connecticut**  
**Arts Endowment Fund**  
**Asset Allocation Policy and Relative Ranges**

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

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



**INVESTMENT POLICY STATEMENT**  
 State of Connecticut Retirement Plans & Trust Funds  
 APPENDIX A, SECTION I – RETIREMENT PLANS AND TRUST  
 FUNDS ALLOCATION APPENDIX

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

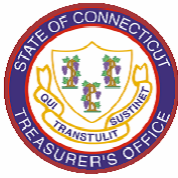
<b><u>Asset Class</u></b>	<b><u>Asset Allocation Target Range</u></b>	<b><u>Lower Bound</u></b>	<b><u>Upper Bound</u></b>
<b><u>Mutual Equity Fund</u></b>	<b><u>25%</u></b>	<b><u>20%</u></b>	<b><u>30%</u></b>
<b><u>Developed Market International Stock Fund</u></b>			
<b><u>Emerging Market International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

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



**INVESTMENT POLICY STATEMENT**  
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**State of Connecticut**  
**Ida Eaton Cotton Fund**  
**Asset Allocation Policy and Relative Ranges**

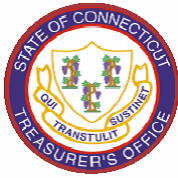
<b><u>Asset Class</u></b>	<b><u>Asset Allocation Target Range</u></b>	<b><u>Lower Bound</u></b>	<b><u>Upper Bound</u></b>
<b><u>Mutual Equity Fund</u></b>	<b><u>25%</u></b>	<b><u>20%</u></b>	<b><u>30%</u></b>
<b><u>Developed Market International Stock Fund</u></b>			
<b><u>Emerging Market International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

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



**INVESTMENT POLICY STATEMENT**  
 State of Connecticut Retirement Plans & Trust Funds  
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**State of Connecticut**  
**School Fund**  
**Asset Allocation Policy and Relative Ranges**

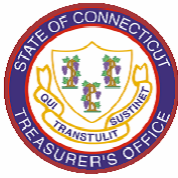
<u><b>Asset Class</b></u>	<u><b>Asset Allocation Target Range</b></u>	<u><b>Lower Bound</b></u>	<u><b>Upper Bound</b></u>
<u><b>Mutual Equity Fund</b></u>	<u><b>25%</b></u>	<u><b>20%</b></u>	<u><b>30%</b></u>
<u><b>Developed Market International Stock Fund</b></u>			
<u><b>Emerging Market International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

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**

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

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.

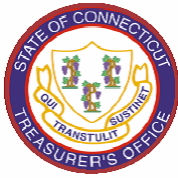
NOTE: Asset Allocation study currently in progress. The Mutual Fixed Income Fund and Mutual Equity Fund have been reallocated, and the targets above no longer match.

*\*Formerly Mutual Fixed Income Fund*



**INVESTMENT POLICY STATEMENT**  
State of Connecticut Retirement Plans & Trust Funds

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



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

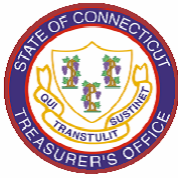
**COMBINED INVESTMENT FUND – ASSET ALLOCATION RANGES**

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.

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

Note: CMERF has this asset allocation





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

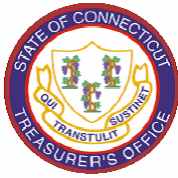
	<b>Asset Allocation Target Ranges</b>	<b>Lower Range %</b>	<b>Upper Range %</b>	<b>Benchmark</b>
<b>Mutual Equity Fund (MEF)</b>	27% - 24.0%	20.0	32.0	Russell 3000 Index + 65-135 bps
<b>Developed Markets International Stock Fund (DMISF)</b>	21% - 19.0%	15.0	26.0	S&P/Citigroup BMI EPAC + 100-250 bps
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



## INVESTMENT POLICY STATEMENT

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

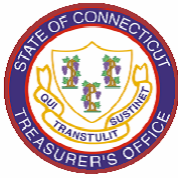
Asset Class Fund will be determined by the Treasurer's reasonable and prudent considerations to create optimal multi-money manager complements. In creating multiple money manager portfolios of assets, money manager structuring is designed to optimize the combination of money managers within an Asset 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 GUIDELINES-REAL ESTATE FUND<sup>1</sup>**

**Manager Strategies/Style<sup>2</sup>**

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.

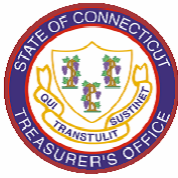
*Allocation to the Core, Value-Added, Opportunistic, and Publicly Traded Portfolios:*

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

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<sup>1</sup> These guidelines supersede PART I, Article V, Section D.1, the Asset Class Definition for the Real Estate Fund.

<sup>2</sup> Including up to 5% of the REF for partnerships targeting underserved geographical areas and populations, with a focus on Connecticut.



**INVESTMENT POLICY STATEMENT**  
 State of Connecticut Retirement Plans & Trust Funds  
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Portfolio Segment	Allocation Range	Target Allocation
Core	<del>50</del> 30% to <del>70</del> 50%	<del>60</del> 40%
Value-Added	<del>5</del> 20% to <del>25</del> 40%	<del>15</del> 30%
Opportunistic	<del>5</del> 20% to <del>25</del> 40%	<del>15</del> 30%
<del>Publicly Traded</del>	<del>0% to 20%</del>	<del>10%</del>

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:*

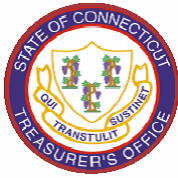
The Fund may enter into discretionary separate account relationships with real estate investment managers, subject to pre-approved investment guidelines, whenever possible, or clearly defined investment strategies. This delineation is known in the real estate industry as “discretion in a box”, which 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 ~~50~~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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**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:*

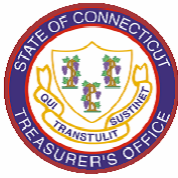
To reduce risk, the REF shall be diversified by investment management organization. No single investment management organization shall manage more than ~~40~~25% of the market value of the REF allocation.

*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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*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%
<u>Other</u>	<u>0% - 20%</u>

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 ~~10~~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.

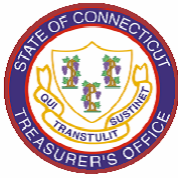
### **Communications, Reporting, Notification**

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/Style**<sup>3</sup>

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.

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





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- 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 %
<del>Buyout</del>	<del>30</del>	<del>25</del>	<del>40</del>
<del>Venture Capital</del>	<del>30</del>	<del>25</del>	<del>40</del>
<del>Special Situation</del>	<del>20</del>	<del>5</del>	<del>30</del>
<del>Fund of Funds</del>	<del>10</del>	<del>0</del>	<del>15</del>
<del>Mezzanine</del>	<del>5</del>	<del>0</del>	<del>10</del>
<del>International</del>	<del>5</del>	<del>0</del>	<del>10</del>
<del>Corporate Finance</del>		<del>60</del>	<del>90</del>
<del>Venture Capital</del>		<del>10</del>	<del>40</del>

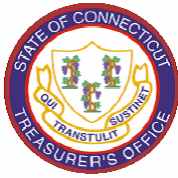
The volatility of the rate of return from a single investment in an underlying portfolio company is expected to be greater than that of publicly traded securities. However, the development of a portfolio of 40 to 50 private equity partnerships that comprises 500 to 700 portfolio companies should have 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:



## INVESTMENT POLICY STATEMENT

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

- **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.
- **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**

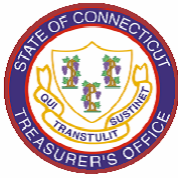
The PIF portfolio will be diversified with respect to time of investment commitment, geography, industry, strategy and stage focus. The private equity industry goes through cycles much like all the other investment asset classes. Given the illiquid nature of private equity investments, attempting to “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.



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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 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:



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- 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;
  - Well-defined and realistic strategies for the future;
  - Experience investing 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:***

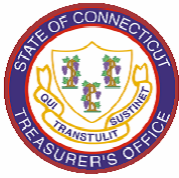
- Proven value-added from the general partners;
- Proven ability to find and participate in successful investments; and
- Strong relationships with other investors and entrepreneurs.

***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.



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**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.



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- 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.
- 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



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where CRPTF does not have 100% ownership and/or full control of the investment.

- 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

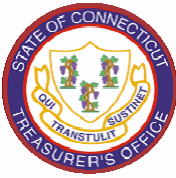




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upon request will provide written substantiation of such compliance. This provision will be subject to periodic audits.

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.



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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.
  - 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.



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

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 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.

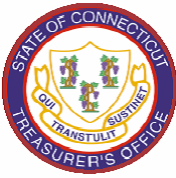
- J. Competitive Bidding: Property managers and contractors should give notice for applicable bids in local trade publications, bulletins, IAC’s and union building trades councils. Property managers should seek input from building trades councils to develop lists of Responsible Contractors for inclusion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



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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.

- 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**

### **DOMESTIC/GLOBAL PROXY VOTING POLICIES**

(no changes to these policies)

## **APPENDIX C**

### **SECTION I**

#### **MACBRIDE COMPLIANCE**

(no changes to this document)

## **APPENDIX C**

### **SECTION II**

#### **DIVERSISTY PRINCIPLES**

(no change to this document)