

**STATE OF CONNECTICUT**  
**OFFICE OF THE TREASURER**

**2003**



**COMBINED INVESTMENT FUNDS**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

*For the fiscal year ended June 30, 2003*

**STATE OF CONNECTICUT**  
**Office of the State Treasurer**



The State Motto "Qui Transtulit Sustinet," (He Who Transplanted Still Sustains), has been associated with the various versions of the state seal from the creation of the Saybrook Colony Seal.

**COMBINED INVESTMENT FUNDS**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR FISCAL YEAR ENDED JUNE 30, 2003**

## Table of Contents

### INTRODUCTORY SECTION

Letter from the Treasurer .....	3
Management’s Report .....	6
Certificate of Achievement for Excellence in Financial Reporting .....	7
The Connecticut State Treasury .....	8
Pension Funds Management Administration .....	9
List of Principal Officials .....	10
Investment Advisory Council .....	11
List of External Advisors.....	12

### FINANCIAL SECTION

Report of Auditors of Public Accounts.....	15
Management’s Discussion and Analysis .....	17

#### BASIC FINANCIAL STATEMENTS

Statement of Net Assets .....	20
Statement of Operations.....	21
Statements of Changes in Net Assets .....	22
Notes to Financial Statements .....	24

### INVESTMENT SECTION

Pension Funds Management Division .....	37
Division Overview .....	37
Investment Policy .....	38
The Year in Review .....	40
Total Fund Performance .....	40
2003 Division Performance and Management Initiatives .....	42
Proxy Voting.....	42
Asset Recovery and Loss Prevention .....	44
Cash Reserve Account .....	48
Mutual Equity Fund .....	52
International Stock Fund .....	55
Real Estate Fund .....	59
Mutual Fixed Income Fund.....	64
Commercial Mortgage Fund .....	69
Private Investment Fund.....	73
Schedule of Investment Advisors and Fees in Excess of \$5,000 .....	79
Combined Investment Funds Schedule of Brokerage Commissions .....	81

## TABLE OF CONTENTS

### STATISTICAL SECTION

Combined Investment Funds Total Net Asset Value by Pension Plans and Trusts .....	85
Combined Investment Funds Statement of Investment Activity by Pension Plan .....	86
Combined Investment Funds Statement of Investment Activity by Trust .....	88
Combined Investment Funds Financial Highlights .....	91
Combined Investment Funds Summary of Operations .....	92
Pension and Trust Funds Balances in Combined Investment Funds .....	92
Combined Investment Funds List of Investment Advisors and Net Assets Under Management .....	93
Schedule of Consulting Services in Excess of \$5,000 .....	96
Combined Investment Funds Investment Summary .....	97
Combined Investment Funds Top Ten Holdings .....	99
Combined Investment Funds Glossary of Investment Terms .....	101
Understanding Investment Performance .....	105

# **Introductory Section**





**State of Connecticut**  
Office of the Treasurer

DENISE L. NAPPIER  
Treasurer

HOWARD G. FISK  
Deputy Treasurer

December 5, 2003

To the State of Connecticut  
Combined Investment Funds  
Fellow Beneficiaries

I am pleased to submit to you this Comprehensive Annual Financial Report (CAFR) of the State of Connecticut Office of the Treasurer Combined Investment Fund (CIF) for the fiscal year ended June 30, 2003.

In this report, you will find a level of disclosure consistent with the highest standards of financial reporting in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by the State of Connecticut's Auditors of Public Accounts.

This Comprehensive Annual Financial Report has earned an unqualified opinion from the State Auditors of Public Accounts. As required by Governmental Accounting Standards Board (GASB) Statement No. 34, the financial section now includes Management's Discussion and Analysis (MD&A), which provides an introduction, overview, and analysis of the financial statements. We are confident that the data is accurate in all material respects and is presented in a manner that fairly reflects the financial position and results of operations as measured by the financial activity of the funds. To this end, audited financial statements and all disclosures necessary to enable the reader to gain an understanding of the Combined Investment Funds financial activities have been included herein for your review.

### **State of Connecticut Combined Investment Funds**

The Combined Investment Funds are separate legally defined funds which have been established by the Treasurer of the State of Connecticut under the authority of the Connecticut General Statutes Section 3-31b. The Funds are open-end portfolios consisting of the Cash Reserve Fund, Mutual Equity Fund, Mutual Fixed Income Fund, International Stock Fund, Real Estate Fund, Commercial Mortgage Fund, and the Private Investment Fund. The Funds were established to provide a means for investing pension and other trust fund assets entrusted to the Treasurer in a variety of investment classes. The units of the Funds are owned by these pension and trust funds which include the Teachers' Retirement Fund, State Employees' Retirement Fund, Connecticut Municipal Employees' Retirement Fund, State Judges' Retirement Fund, Probate Court Retirement Fund, State's Attorney Retirement Fund, Soldiers' Sailors' & Marines' Fund, Police and Fireman' Survivors' Benefit Fund, Connecticut Arts Endowment Fund, School Fund, Ida Eaton Cotton Fund, Hopemead Fund, Andrew C. Clark Fund, Agricultural College Fund and the Tobacco and Health Trust Fund.

The Treasurer, as principal fiduciary of the Combined Investment Funds, is authorized to invest in a broad range of equity and fixed income securities, as well as real estate properties,

mortgages and private equity. The Office of the Treasurer and the State's Investment Advisory Council (IAC) developed a comprehensive Investment Policy Statement (IPS) that provides policy guidelines for the Funds investments and includes an asset allocation plan, which governs Fund investments today. The Asset Allocation Plan's main objective is to maximize investment returns over the long term at an acceptable level of risk, primarily through asset diversification. Risk, in this context, is defined as volatility of investment returns. (See the Understanding Investment Performance discussion in the Supplemental Section.)

The Funds are externally managed primarily with registered investment advisors selected on a competitive basis based on professional reputation, experience and performance. Investments are stated at fair value for each of the funds and the investments of the Cash Reserve Fund are valued at amortized cost that approximates fair value.

## Report Contents

This report was prepared in its entirety by the Connecticut State Treasurer's Office and we take full responsibility for the accuracy of the data and the completeness and fairness of the presentation of the financial statements, supporting schedules, investment performance information, and the statistical tables in it. This CAFR contains four sections:

The Introductory Section contains this letter of transmittal and Management's Report, the GFOA certificate, an organizational structure of the Treasurer's Office, and a list of principal officials and investment advisors for the Combined Investment Funds.

The Financial Section contains the opinion of the State of Connecticut Auditors of Public Accounts, management's discussion and analysis and the financial statements of CIF and notes to the financial statements.

The Investment Section contains a comprehensive discussion of the Funds investment performance and operations including:

- Overview of the Funds operations, investment policies, and approach to measuring and evaluating performance;
- Analysis of the fiscal year's economic conditions and their impact on the Funds' performance;
- Each Fund's performance objectives, benchmarks, and comparative risk profile; and
- Comprehensive presentation of each Fund's portfolio composition, annual and historical investment performance, and a listing of all brokerage firms used by the Pension Funds Management Division and the aggregate commissions paid to each.

The Statistical Section is the final section of the CAFR and includes various tables and schedules and miscellaneous relevant data concerning investments including the Pension and Trust Funds' ownership in the Combined Investment Funds, a list of the Funds' investment advisors and their assets under management, the Pension and Trust Funds' allocation across major asset categories and the market values and rates of return for each, a historical table of CIF assets under management and a comprehensive glossary of investment terms.

The performance presentation formats and disclosures contained in this report are a synthesis of techniques used by public and private sector reporting entities as well as recommendations from the Government Finance Officers Association. Similarly, the financial statements and disclosures reflect a comprehensive effort by Treasurer's Office staff to integrate all appropriate accounting and disclosure standards as well as the most current disclosures required by generally accepted accounting principles.

## Major Highlights

For the Fiscal Year ended June 30, 2003, the Funds returned a positive 2.49 percent, net of all management fees and expenses, reflecting modest economic recovery following a difficult market climate in fiscal 2002 that produced a net total return, after all expenses, of negative 6.39 percent.



## LETTER FROM THE TREASURER

Even though the Funds achieved a positive investment return at fiscal year end June 30, 2003, the net assets of the Funds declined by approximately \$400 million to \$18.3 billion as a result of net cash outflows to beneficiaries.

The Combined Investment Funds performance relative to other public funds in the Trust Universe Comparison Service (TUCS) (its peer group for public funds with assets greater than \$1 billion dollars) ranked in the 37<sup>th</sup> percentile, outperforming 63 percent of similar funds over a five-year period with an annualized return (gross of fees) of 3.12 percent.

### **Awards and Acknowledgements**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Connecticut State Treasurer's Combined Investment Funds for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2002. In order to be awarded a Certificate of Achievement, the Treasurer's Office must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

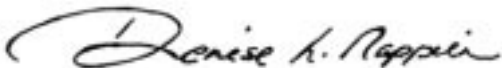
A Certificate of Achievement is valid for a period of one year only. We believe this current report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of many individuals in the Treasurer's Office. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions and determining responsible stewardship of the Funds in the Treasury.

### **Requests for Information**

This financial report is designed to provide a general overview of the State of Connecticut Office of the Treasurer Combined Investment Funds activities for all those with an interest in the Funds investment activities. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Treasurer, 55 Elm Street, Hartford, Connecticut 06106-1773, and telephone (860) 702-3000. Copies of the comprehensive annual financial report will also be available on the Internet at [www.state.ct.us/ott](http://www.state.ct.us/ott).

Sincerely,



Denise L. Nappier  
Treasurer



**State of Connecticut**  
Office of the Treasurer

DAVID L. NAFFER  
Treasurer

HOWARD G. RIFKIN  
Deputy Treasurer

October 15, 2003

To the State of Connecticut  
Combined Investment Funds  
Fellow Beneficiaries

This report was prepared by the Office of the Treasurer, which is responsible for the accuracy of the data, the completeness and fairness of the presentation and all disclosures. We present the financial statements and data as being accurate in all material respects and prepared in conformity with generally accepted accounting principles and such financial statements are audited annually by the State of Connecticut Auditors of Public Accounts.

To carry out this responsibility, the Office of the Treasurer maintains financial policies, procedures, accounting systems and internal controls that management believes provide reasonable, but not absolute, assurance that accurate financial records are maintained and investments and other assets are safeguarded.

It is our belief that the contents of this Combined Investment Funds Comprehensive Annual Financial Report make evident the State of Connecticut Office of the Treasurer support of the safe custody and conscientious stewardship of the State's property and money held by the State.

In management's opinion, the internal control structure of the Office of the Treasurer is adequate to ensure that the financial information in this report presents fairly the financial condition and results of operations of the funds that follow.

Sincerely,

A handwritten signature in black ink, appearing to read "H. Rifkin", with a long horizontal flourish extending to the right.

Howard G. Rifkin  
Deputy Treasurer

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Connecticut State  
Treasurer's Combined  
Investment Funds

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers' Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, reading "William Patrick Costa".

President

A handwritten signature in black ink, reading "Jeffrey R. Emery".

Executive Director

**Mission Statement**

To serve as the premier State Treasurer’s Office in the nation through effective management of public resources, high standards of professionalism and integrity, and expansion of opportunity for the citizens and businesses of Connecticut.

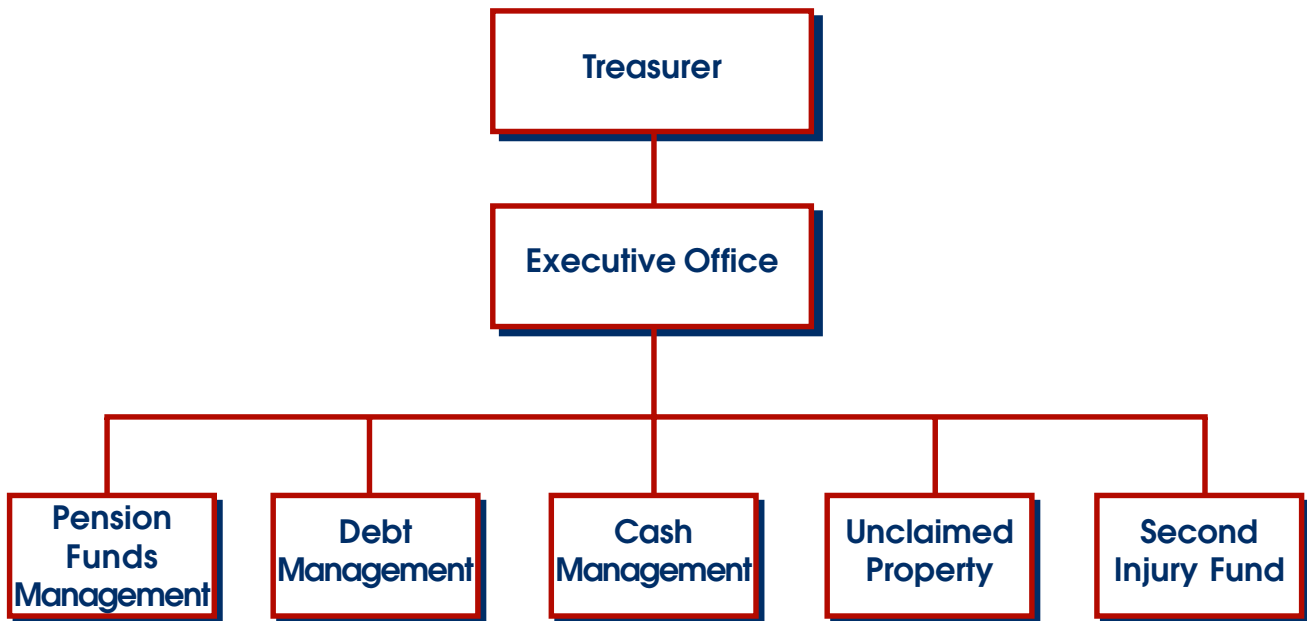
**Statutory Responsibility**

The Office of the Treasurer was established following the adoption of the fundamental orders of Connecticut in 1638. The duties, as described in Article Fourth, Section 22 of the Connecticut Constitution and in Title 3 of the Connecticut General Statutes, the Treasurer shall receive all funds belonging to the state and disburse the same only as may be directed by law.

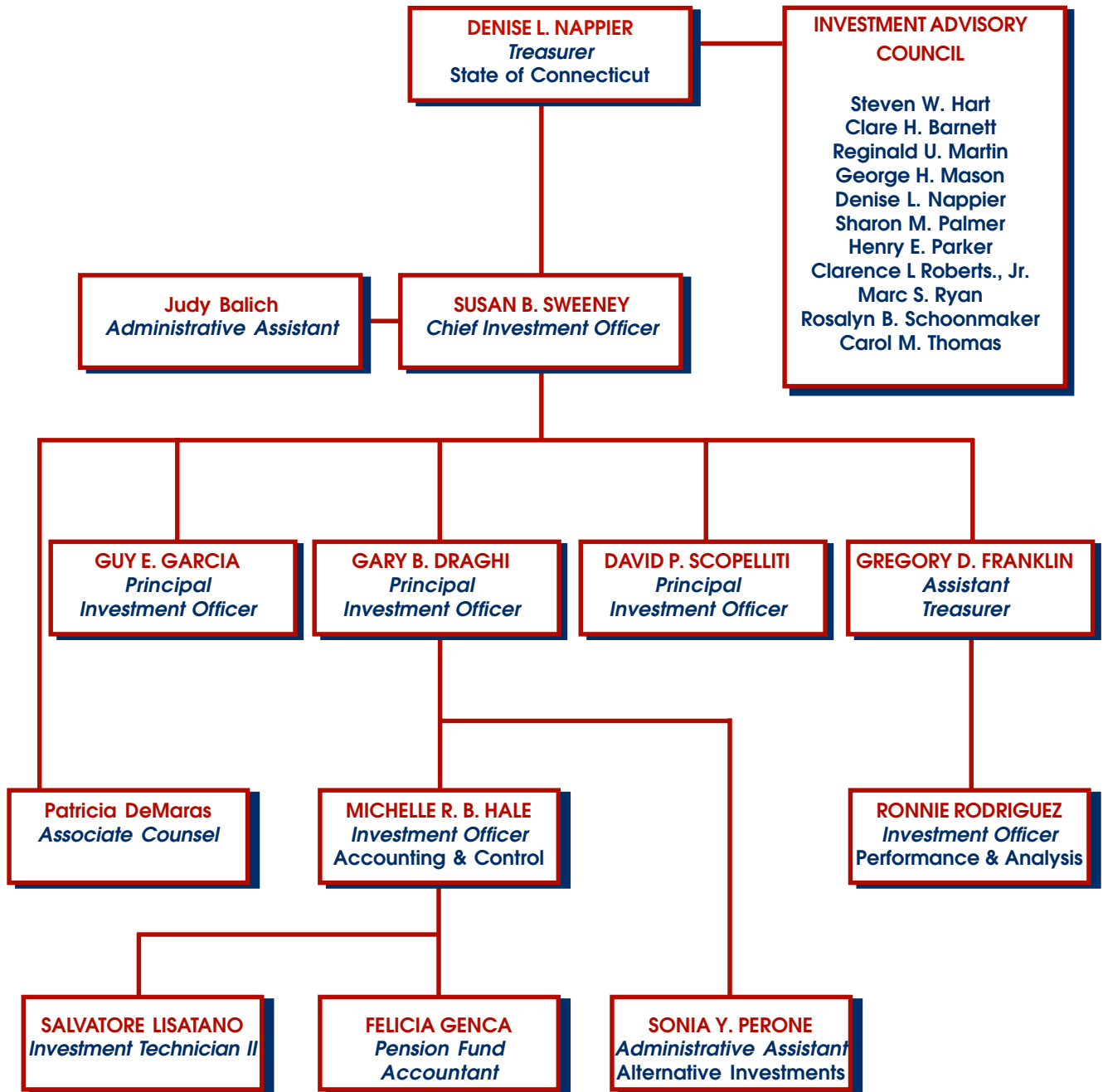
The Treasurer is the Chief Fiscal Officer for the State government, overseeing a wide variety of activities regarding the prudent conservation and management of State funds. This includes the administration of a portfolio of pension assets worth more than \$18 billion and a short-term investment fund with an average daily balance of over \$3 billion.

**Public Service**

The Office of the Treasurer includes an Executive Office as well as five distinct divisions, each with specific responsibilities: Pension Funds Management, Cash Management, Debt Management, Unclaimed Property, and the Second Injury Fund.



COMBINED INVESTMENT FUNDS ADMINISTRATION



Effective October 15, 2003.

## LIST OF PRINCIPAL OFFICIALS

### COMBINED INVESTMENT FUNDS

55 Elm Street  
6th Floor  
Hartford, CT. 06106-2773  
Telephone: (860) 702-3155  
Facsimile: (860) 702-3042  
World Wide Web:  
[www.state.ct.us/ott](http://www.state.ct.us/ott)

Treasurer, State of Connecticut  
**DENISE L. NAPPIER (860) 702-3010**

Deputy Treasurer, State of Connecticut  
**HOWARD G. RIFKIN (860) 702-3292**

Chief Investment Officer  
**SUSAN B. SWEENEY (860) 702-3229**

Assistant Treasurer  
**GREGORY D. FRANKLIN, CFA (860) 702-3162**

Principal Investment Officer  
**GARY B. DRAGHI, CFA, CPA (860) 702-3160**

Principal Investment Officer  
**GUY E. GARCIA (860) 702-3070**

Principal Investment Officer  
**DAVID P. SCOPELLITI (860) 702-3177**

Investment Officer  
**RONNIE RODRIGUEZ (860) 702-3167**

Investment Officer  
**MICHELLE R. B. HALE, CPA (860) 702-3275**

## INVESTMENT ADVISORY COUNCIL

The Investment Advisory Council (IAC) consists of The State Treasurer and Secretary of the Office of Policy and Management (as ex-officio members of the council), five public members all of whom shall be experienced in matters relating to investments appointed by the Governor and legislative leadership, and three representatives of the teachers' unions and two representatives of the state employees' unions (CGS Sec. 3-13b).

As enacted in Public Act 00-43, the IAC annually reviews the Investment Policy (IPS) Statement recommended by the Treasurer which includes an outline of the standards governing investment of trust funds by the Treasurer. The IPS includes, with respect to each trust fund, (A) investment objectives; (B) asset allocation policy and risk tolerance; (C) 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; (D) investment manager guidelines; (E) investment performance evaluation guidelines; (F) guidelines for the selection and termination of providers of investment related services who shall include, but not be limited to, investment advisors, external money managers, investment consultants, custodians, broker-dealers, legal counsel, and similar investment industry professionals; and (G) proxy voting guidelines. The Treasurer shall thereafter adopt the IPS, including any such changes recommended by the IAC the Treasurer deems appropriate, with the approval of a majority of the members appointed to the IAC. The current IPS was adopted by the Treasurer and approved by the IAC in March 2002 and subsequently in January 2003, the IAC approved the Treasurer's adopted guidelines for the Mutual Fixed Income Fund.

All trust fund investments by the State Treasurer shall be reviewed by the Investment Advisory Council along with all information regarding such investments provided to the council which the Treasurer deems relevant to the council's review and such other information as may be requested by the council. The IAC shall also review the report provided by the Treasurer at each regularly scheduled meeting of the IAC as to the status of the trust funds and any significant changes which may have occurred or which may be pending with regard to the funds. The council shall promptly notify the Auditors of Public Accounts and the Comptroller of any unauthorized, illegal, irregular or unsafe handling or expenditure of trust funds or breakdowns in the safekeeping of trust funds or contemplated action to do the same within their knowledge.

At the close of the fiscal year, the IAC shall make a complete examination of the security investments of the State and determine as of June thirtieth, the value of such investments in the custody of the Treasurer and report thereon to the Governor, the General Assembly and beneficiaries of trust fund assets administered, held or invested by the Treasurer (CGS Sec. 3-13b(c)(2)).

---

### **Council members who contributed their time and knowledge to the IAC during fiscal 2003 include:**

**STEVEN W. HART**, Chairman, as appointed by the Governor, President, Hart Capital LLC. (Term expired 6/30/2003)

**CLARE H. BARNETT**, Representative of State Teachers' unions, Teacher and Social Studies Chair, Danbury school system.

**REGINALD U. MARTIN**, Managing Partner, Insurance Planning Associates.

**GEORGE H. MASON**, Retired Business Educator. (Term expired 6/30/2003)

**DENISE L. NAPPIER**, Treasurer, State of Connecticut (Ex-officio member) and council secretary.

**SHARON M. PALMER**, Representative of State Teachers' unions, First Vice President, CT Federation of Educational and Professional Employees.

**HENRY E. PARKER**, Former Treasurer, State of Connecticut 1975-1986, Former Senior Vice President, Atalanta/Sosnoff Capital Corporation (Retired).

**CLARENCE L. ROBERTS, JR.**, Former Assistant Treasurer, Unilever United States, Inc. (Retired).

**MARC S. RYAN**, Secretary, State Office of Policy and Management (Ex-officio member).

**ROSALYN B. SCHOONMAKER**, Representative of State Teachers' unions, retired teacher and retirement counselor.

**CAROL M. THOMAS**, Representative of State Employees' unions, State Department of Mental Retardation.

## LIST OF EXTERNAL ADVISORS

### **INVESTMENT CONSULTANTS**

CRA RogersCasey - Darien, Connecticut  
Greystone Capital Management - Hartford, Connecticut  
Invesco Private Capital - Denver, Colorado  
Pension Consulting Alliance - Portland, Oregon

### **MASTER CUSTODIAN**

State Street Bank and Trust Co. - Boston, Massachusetts

### **AUDITORS**

Auditors of Public Accounts - Hartford, Connecticut

### **INVESTMENT ADVISORS**

#### **CASH RESERVE ACCOUNT**

State Street Global Advisors - Boston, Massachusetts

#### **MUTUAL EQUITY FUND (MEF)**

##### **Large Cap**

BGI Barclays Global Investors, N.A. - San Francisco, California  
State Street Global Advisors - Boston, Massachusetts

##### **Small/Mid Cap Passive Enhance**

AXA Rosenberg Investment Management - Orinda, California  
SSB CitiGroup (The Travelers) - Stamford, Connecticut

##### **Small/Mid Cap Active**

Brown Capital Management, Inc. - Baltimore, Maryland  
TCW Cowen Asset Management - New York, New York  
Thomas Weisel Partners (Valuequest) - Boston, Massachusetts

#### **INTERNATIONAL STOCK FUND**

##### **EAFE - Europe**

State Street Global Advisors - Boston, Massachusetts

##### **Core**

DSI International Management - Norwalk, Connecticut  
Grantham, Mayo, Van Otterloo & Co. - Boston, Massachusetts  
Morgan Stanley Asset Management - New York, New York  
Smith Barney Capital Management - Stamford, Connecticut

##### **Emerging**

Morgan Stanley Asset Management - New York, New York  
Pictet International Management - London, England

#### **REAL ESTATE FUND (REF)**

AEW Capital Management - Boston, Massachusetts  
Apollo Real Estate Investment Fund - New York, New York



## LIST OF EXTERNAL ADVISORS

Cigna Realty Investors - Hartford, Connecticut  
Evergreen Investments - Atlanta, Georgia  
New Boston Fund - Boston, Massachusetts  
Tishman Hotel Corporation - New York, New York  
Walton Street Real Estate Fund II- Chicago, Illinois  
Westport Senior Living Fund – Palm Beach Gardens, Florida

### MUTUAL FIXED INCOME FUND (MFIF)

#### Core

BlackRock Financial Management, Inc. - New York, New York  
Phoenix Investment Counsel - Hartford, Connecticut  
State Street Global Advisors - Boston, Massachusetts  
Wellington - Boston, Massachusetts  
Western Asset Management - Pasadena, California

#### High Yield

Loomis Sayles & Co., Inc. - Boston, Massachusetts  
Oaktree Capital Management, L.L.C. - Los Angeles, California  
Triumph II, L.P. - Boston, Massachusetts  
W.R. Huff Asset Management - Morristown, New Jersey

### COMMERCIAL MORTGAGE FUND (CMF)

AEW Capital Management, LP - Boston, Massachusetts

### PRIVATE INVESTMENT FUND (PIF)

#### Corporate Buyouts

Blackstone Capital Partners III - New York, New York  
DLJ Merchant Banking Fund II- New York, New York  
Forstmann Little Equity Fund VI- New York, New York  
Green Equity Investors III – Los Angeles, California  
Hicks Muse Tate & Furst Equity Fund III - Dallas, Texas  
Kelso Investment Associates VI - New York, New York  
KKR 1996 Fund - New York, New York  
KKR Millenium Fund - New York, New York  
SCP Private Equity Partners - Wayne, Pennsylvania  
Thayer Equity Investors IV – Washington D.C.  
Thomas H. Lee Equity Fund IV - Boston, Massachusetts  
Veritas Capital Fund- New York, New York  
Wellspring Capital Partners II - New York, New York  
Wellspring Capital Partners III - New York, New York  
Welsh, Carson, Anderson & Stowe VIII – New York, New York

#### Venture Capital

Connecticut Financial Development Fund - New York, New York  
Connecticut Futures Fund - Westport, Connecticut  
Connecticut Green Ventures - White Plains, New York  
Conning Capital Partners V - Hartford, Connecticut  
Crescendo III – Minneapolis, Minnesota  
Crescendo World Fund – Minneapolis, Minnesota  
Grotech Partners V - Timonium, Maryland  
Pioneer Ventures Associates - Windsor, Connecticut  
RFE Investment Partners VI - New Canaan, Connecticut  
Shawmut Equity Partners - Boston, Massachusetts

## LIST OF EXTERNAL ADVISORS

### Mezzanine

GarMark Partners - Stamford, Connecticut  
SW Pelham Fund - Hartford, Connecticut  
SW Pelham Fund II LP - Hartford, Connecticut  
Triumph Connecticut Partners - Boston, Massachusetts

### International

AIG Global Emerging Markets Fund - New York, New York  
Carlyle Asia Partners- Washington D.C.  
Carlyle Europe Partners- Washington D.C.  
Compass European Partners - New York, New York  
Gilbert Global Equity Partners - Tacoma, Washington

### Fund of Funds

Crossroads Constitution Fund - Dallas, Texas  
Goldman Sachs Private Equity Fund - New York, New York  
Landmark Private Equity Fund VIII - Simsbury, Connecticut  
Lexington Capital Partners II - New York, New York

### Special Situations

Forstmann Little MBO VII - New York, New York  
Greenwich Street Capital Partners II - New York, New York  
Triumph Capital Investors II - Boston, Massachusetts  
Triumph Capital Partners III- Boston, Massachusetts  
Welsh, Carson, Anderson & Stowe Capital Partners III - New York, New York

**Financial**  

---

**Section**



## INDEPENDENT AUDITOR'S REPORT

### STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS  
STATE CAPITOL  
710 CAPITOL AVENUE  
HARTFORD, CONNECTICUT 06106-1539

KEVIN P. JOHNSTON

ROBERT D. JAEKLE

### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statement of net assets of the Combined Investment Funds as of June 30, 2003, the related statement of operations for the fiscal year then ended, and the statement of changes in net assets for the fiscal years ended June 30, 2003, and 2002. These financial statements are the responsibility of the management of the State Treasury. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

Our procedures included confirmation of securities owned as of June 30, 2003, by correspondence with the custodians. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Combined Investment Funds as of June 30, 2003, and the results of their operations and changes in net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

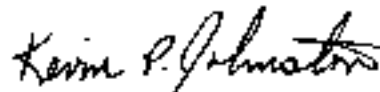
As explained in Note 1B, the State Treasurer's policy is to present investments at fair value. The fair value of most of the assets of the Real Estate Fund, the Commercial Mortgage Fund and the Private Investment Fund and the limited partnership investment of the Mutual Fixed Income Fund are estimated by investment advisors in the absence of readily ascertainable market values, and reviewed and adjusted, when appropriate, by the State Treasurer. The fair value of most of the assets of the Real Estate Fund and the Private Investment Fund and the limited partnership investment of the Mutual Fixed Income Fund are presented at the cash adjusted fair values, which utilize the investment advisors' March 31, 2003, quarter ending estimated values adjusted for cash flows of the Funds during the subsequent quarter that affect the value at the Funds' level. Adjustments are made for underlying investments that experienced significant changes in value during the quarter, if deemed appropriate. We have reviewed the investment advisors' values, the

## INDEPENDENT AUDITOR'S REPORT

relevant cash flows and the procedures used by the State Treasurer in reviewing the estimated values and have read underlying documentation and, in the circumstances, we believe the procedures to be reasonable and the documentation appropriate. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Our audit was made for the purpose of forming an opinion on the financial statements of the Combined Investment Funds taken as a whole. The Combined Investment Funds Total Net Asset Value by Pension Plans and Trusts and the Statements of Investment Activity by Pension Plan and by Trust, contained within the Statistical Section of this document, are presented for purposes of additional analysis and are not a required part of the financial statements of the Combined Investment Funds. Such information has been subjected to the auditing procedures applied in the audit of the financial statements of the Combined Investment Funds and, in our opinion, is fairly presented in all material respects in relation to the financial statements of the Combined Investment Funds taken as a whole. The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the Management's Discussion and Analysis and express no opinion on it.

This opinion is being issued for inclusion in an annual report for the State Treasurer's Combined Investment Funds for the fiscal year ended June 30, 2003. Other information contained within the Statistical Section and the Investment and Introductory Sections of this document has not been audited.



Kevin P. Johnston  
Auditor of Public Accounts



Robert G. Jackle  
Auditor of Public Accounts

October 15, 2003  
State Capitol  
Hartford, Connecticut

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This *Management's Discussion and Analysis (MD&A)* of the Comprehensive Annual Financial Report (CAFR) of the State of Connecticut Office of the Treasurer Combined Investment Funds (CIF) is a narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2003. It is provided by the management of the State of Connecticut's Office of the Treasurer and we encourage readers to review it in conjunction with the transmittal letter at the front of this report and with the financial statements that follow.

The Office of the Treasurer is in its second year of implementing this new reporting standard and the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34.

The Combined Investment Funds financial statements reported by the Treasurer's Office for which the Treasurer has fiduciary responsibility for the investment thereof begin on page 20 and provide detailed information about individual funds. (The funds are separate legally defined funds which have been established by the Treasurer and the units of the funds are owned by the pension and trusts funds which include the Teachers' Retirement Fund, State Employees' Retirement Fund, Connecticut Municipal Employees' Retirement Fund, Soldiers' Sailors' & Marines' Fund, Police and Firemen Survivors' Benefit Fund, Connecticut Arts Endowment Fund, School Fund, Ida Eaton Cotton Fund, Hopemead Fund, Andrew C. Clark Fund, and the Agricultural College Fund). This financial information is included in the activities of the State of Connecticut's Fund Financial Statements as presented in the Comprehensive Annual Financial Report of the State of Connecticut prepared by the State Comptroller.

### FINANCIAL HIGHLIGHTS & ANALYSIS OF THE FUNDS

The Combined Investment Funds represent the pension funds of the State teachers, State and municipal employees, as well as trust funds that support academic programs, grants and initiatives throughout the State with a combined market value portfolio in excess of \$18.9 billion; ranging in investment diversity from domestic and international stocks to fixed income, real estate and private investment equity.

*Net Assets* - The net assets of the Combined Investment Funds at the close of the fiscal year were \$18.3 billion, a decline of \$0.40 billion from the previous year. The change in net assets resulted from negative operating cash flow of \$0.76 billion partly offset by net investment income \$0.36 billion.

*Operating Income* - Fiscal 2003 performance produced a net total return of 2.49%, after all expenses, compared to a negative return of 6.39%, net of all expenses for the previous fiscal year.

However, due to the general financial market conditions the Combined Investment Funds underperformed its benchmark return by 139 basis points due primarily to continued difficult conditions in the private equity markets.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the Office of the Treasurer's Combined Investment Funds basic financial statements, which are comprised of: 1) Statement of Net Assets, 2) Statement of Operations, 3) Statement of Changes in Net Assets and 4) Notes to the Financial Statements.

The Statement of Net Assets and the Statement of Operations are two financial statements that report information about the Combined Investment Funds as a whole, and about its activities that should help answer this question: Are the Combined Investment Funds, as a whole, performing better or worse as a result of this year's activities? These statements include all assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Statement of Net Assets (page 20) presents all of the Combined Investment Funds assets and liabilities, with the difference between the two reported as "net assets". Over time, increases and decreases in net assets measure whether the Combined Investment Funds financial position is improving or deteriorating.

### Net Assets held in trust for Participants

A summary of the net assets held in trust for participants is presented below.

#### Condensed Statement of Net Assets Fiscal Year Ended June 30,

	2003	2002	Increase / (Decrease)	
			Amount	%
Assets				
Investments at Fair Value	\$18,989,393,113	\$19,557,516,103	\$(568,122,990)	(3.0)%
Cash, Receivables and Other	4,253,923,670	3,854,987,783	398,935,887	2.1%
Total Assets	23,243,316,783	23,412,503,886	(169,187,103)	(0.9)%
Liabilities	(4,942,911,710)	(4,706,349,534)	(236,562,176)	(1.3)%
Net Assets	<u>\$18,300,405,073</u>	<u>\$18,706,154,352</u>	<u>\$(405,749,279)</u>	(2.2)%

The Statement of Operations (page 21) presents information on interest income, net increase in fair value of investments and administrative expenses. Unrealized gains or losses of securities are determined by taking the difference between amortized cost and the fair value of investments.

The Statement of Changes in Net Assets (pages 22 and 23) presents information showing how the Combined Investment Fund's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. security lending rebates and dividend and interest income).

#### Condensed Statement of Changes in Net Assets Fiscal Year Ended June 30,

	2003	2002	Increase / (Decrease)
			Amount
<b>Additions (Deductions) in Net Assets From</b>			
Operations	\$355,100,336	\$(1,331,972,420)	\$1,687,072,756
Distributions of income to unit owners	(836,951,362)	(717,809,911)	(119,141,451)
Purchase of units by participants	1,299,496,983	1,117,494,957	182,002,026
Redemption of units by participants	<u>(1,223,395,231)</u>	<u>(954,767,375)</u>	<u>(268,627,856)</u>
Total Increase (Decrease) in Net Assets	<u>\$(405,749,274)</u>	<u>\$(1,887,054,749)</u>	<u>\$1,481,305,475</u>

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the Combined Investment Fund's financial statements. The notes can be found on pages 24 through 35 of this report.

### REQUIRED SUPPLEMENTARY INFORMATION

The Office of the Treasurer's Comprehensive Annual Financial Report for the Combined Investment Funds does not separately report required supplementary information that contains budgetary comparison schedules or schedules presenting infrastructure assets. This information is recorded by



## MANAGEMENT'S DISCUSSION AND ANALYSIS

the State of Connecticut in its Comprehensive Annual Financial Report (CAFR) and as such, compliance with GASB Statement 34 is not applicable to the State of Connecticut Office of the Treasurer Combined Investment Funds.

### **ECONOMIC CONDITIONS AND OUTLOOK**

Fiscal year 2003 experienced mild economic momentum that developed at the end of fiscal year 2002. More concerned about the weak economy and possible deflation than about possible inflation, the Fed lowered the Federal Funds rate down to 1% in fiscal year 2003 on June 25, the lowest level since the Eisenhower administration.

In fiscal year 2003, the economy continued to lose jobs, especially in manufacturing. The U.S. economy is experiencing, according to the Wall Street Journal, its "... most protracted job-market downturn since the Great Depression" and has lost over two million jobs since the recession began in March 2001. Increases in productivity, overseas competition, and structural changes in the American economy are the three main culprits in the declining job market. Though productivity gains could hurt the economy by decreasing employment opportunities and thereby decreasing consumer spending, it has also increased corporate profits. This gives companies resources to invest in new equipment, however, so far the capital invested by companies has been to improve productivity rather than to increase production. Though this is helpful to the economy, it is not as stimulative to the economy as capital investment to increase production.

Fiscal year 2004 is beginning with uncertainty as measured by consumer confidence, which declined from 83.5 at the end of fiscal year 2003 due to dismal employment prospects, and uncertainty in international affairs. However, the future expectations portion of the index increased from 86.3 to 94.4, an indication that consumers see the economy improving. A combination of pro-growth fiscal policies, an accommodative Fed policy, improvement in corporate profits, and mild core inflation should cause the economy to expand this year. The Fed has made it clear that it plans to keep short-term rates low for the foreseeable future, and the Federal Government has shown no inclination to cut spending or raise taxes.

The Combined Investment Funds performance relative to other public funds in the Trust Universe Comparison Service (TUCS) (it's peer group for Public Funds with assets greater than \$1 billion dollars) ranked in the 37<sup>th</sup> percentile, outperforming 63 percent of similar funds over a five-year period with an annualized return (gross of fees) of 3.12 percent.

### **CONTACTING THE OFFICE OF THE TREASURER**

This financial report is designed to provide a general overview of the Office of the Treasurer's finances and to show the Office's accountability for the money it receives. Questions about this report or requests for additional information should be addressed to:

Connecticut State Treasury  
55 Elm Street  
Hartford, CT 06106-1773  
Telephone (860) 702-3000  
[www.state.ct.us/ott](http://www.state.ct.us/ott)

**CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS**

**STATEMENT OF NET ASSETS  
JUNE 30, 2003**

	<b>CASH RESERVE FUND</b>	<b>MUTUAL EQUITY FUND</b>	<b>FIXED INCOME FUND</b>	<b>INTER- NATIONAL STOCK FUND</b>	<b>REAL ESTATE FUND</b>	<b>COMMERCIAL MORTGAGE FUND</b>	<b>PRIVATE INVESTMENT FUND</b>	<b>ELIMI- NATION ENTRY</b>	<b>TOTAL</b>
<b>ASSETS</b>									
Investments in Securities, at Fair Value									
Cash Reserve Fund	\$ -	\$ 69,776,180	\$ 928,200,087	\$ 48,715,341	\$ 5,760,649	\$21,575,500	\$ 66,745,869	\$(1,140,773.623)	\$ -
Cash Equivalents	756,815,973	-	3,740,000	6,650,092	-	-	-	-	767,206,065
Asset Backed Securities	704,090,895	-	83,944,263	1,571	-	-	-	-	788,036,729
Government Securities	-	-	1,390,862,119	-	-	-	-	-	1,390,862,119
Government Agency Securities	40,684,790	-	1,881,555,528	-	-	-	-	-	1,922,240,318
Mortgage Backed Securities	89,486,965	-	668,366,066	-	-	929,622	-	-	758,782,653
Corporate Debt	260,527,996	-	2,211,922,899	92,354	-	-	23,260,800	-	2,495,804,049
Convertible Securities	-	-	54,405,265	5,419,113	-	-	-	-	59,824,378
Common Stock	-	6,468,347,651	4,343,057	1,932,632,760	64,338,120	49,485,756	100,001	-	8,519,247,345
Preferred Stock	-	15,738	686,805	32,785,769	-	-	-	-	33,488,312
Real Estate Investment Trust	-	64,922,349	3,054,348	-	-	-	-	-	67,976,697
Mutual Fund	-	-	46,091,973	-	-	-	-	-	46,091,973
Limited Liability Corporation	-	-	-	-	-	-	35,563,437	-	35,563,437
Trusts	-	-	-	-	49,683,820	-	-	-	49,683,820
Limited Partnerships	-	-	31,244,883	-	293,709,592	-	1,717,229,912	-	2,042,184,387
Partnerships	-	-	-	-	-	-	-	-	-
Annuities	-	-	-	-	12,400,831	-	-	-	12,400,831
<b>Total Investments in Securities, at Fair Value</b>	<b>1,851,606,619</b>	<b>6,603,061,918</b>	<b>7,308,417,293</b>	<b>2,026,297,000</b>	<b>425,893,012</b>	<b>71,990,878</b>	<b>1,842,900,019</b>	<b>(1,140,773.623)</b>	<b>18,989,393,113</b>
Cash	91,354	3,559	14,390,272	8,805,279	-	-	697,824	(91,354)	23,896,934
Receivables	-	-	-	-	-	-	-	-	-
Foreign Exchange Contracts	-	-	163,838,000	1,856,186,500	-	-	-	-	2,020,024,500
Interest Receivable	3,533,473	73,593	80,653,552	85,611	8,013	20,628	81,156	(1,488,075)	82,967,951
Dividends Receivable	-	7,170,883	70,438	2,763,003	-	268,447	-	-	10,272,771
Due from Brokers	-	58,869,969	653,881,134	7,051,126	-	-	849,898	-	720,652,127
Management Fee Receivable	-	-	-	-	-	-	-	-	-
Foreign Taxes	-	406	3,946	1,013,324	-	-	-	-	1,017,676
Securities Lending Receivable	-	76,344	152,443	207,064	-	-	-	-	435,851
Reserve for Doubtful Receivables	-	-	(37,357,014)	(223,384)	-	-	-	-	(37,580,398)
<b>Total Receivables</b>	<b>3,533,473</b>	<b>66,191,195</b>	<b>861,242,499</b>	<b>1,867,083,244</b>	<b>8,013</b>	<b>289,075</b>	<b>931,054</b>	<b>(1,488,075)</b>	<b>2,797,790,478</b>
Invested Securities Lending Collateral	-	339,007,221	781,012,561	308,444,949	-	-	-	-	1,428,464,731
Other Funds on Deposit	-	-	-	-	-	-	-	-	-
Prepaid Expenses	-	-	-	-	-	2,546	3,768,981	-	3,771,527
<b>Total Assets</b>	<b>1,855,231,446</b>	<b>7,008,263,893</b>	<b>8,965,062,625</b>	<b>4,210,630,472</b>	<b>425,901,025</b>	<b>72,282,499</b>	<b>1,848,297,878</b>	<b>(1,142,353,052)</b>	<b>23,243,316,783</b>
<b>LIABILITIES</b>									
Payables									
Foreign Exchange Contracts	-	-	165,306,065	1,847,165,622	-	-	-	-	2,012,471,687
Due to Brokers	-	60,109,535	1,405,484,001	12,336,138	-	-	-	-	1,477,929,674
Income Distribution	2,370,124	-	-	-	-	-	-	(1,554,688)	815,436
Other Payable	18,001	-	-	-	-	-	-	(18,001)	-
<b>Total Payables</b>	<b>2,388,125</b>	<b>60,109,535</b>	<b>1,570,790,066</b>	<b>1,859,501,760</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,572,689)</b>	<b>3,491,216,797</b>
Securities Lending Collateral	-	339,007,221	781,012,561	308,444,949	-	-	-	-	1,428,464,731
Accrued Expenses	17,537	10,678,961	3,659,684	8,591,244	110,866	-	178,622	(6,732)	23,230,182
<b>Total Liabilities</b>	<b>2,405,662</b>	<b>409,795,717</b>	<b>2,355,462,311</b>	<b>2,176,537,953</b>	<b>110,866</b>	<b>-</b>	<b>178,622</b>	<b>(1,579,421)</b>	<b>4,942,911,710</b>
<b>NET ASSETS</b>	<b>\$1,852,825,784</b>	<b>\$6,598,468,176</b>	<b>\$6,609,600,314</b>	<b>\$2,034,092,519</b>	<b>\$425,790,159</b>	<b>\$72,282,499</b>	<b>\$1,848,119,256</b>	<b>\$(1,140,773.631)</b>	<b>\$18,300,405,073</b>
Units Outstanding	1,852,825,784	9,733,408	57,185,263	10,784,603	7,401,167	984,931	28,316,585		
Net Asset Value and Redemption Price per Unit	\$ 1.00	\$ 677.92	\$ 115.58	\$ 188.61	\$ 57.53	\$ 73.39	\$ 65.27		

The accompanying notes are an integral part of these financial statements.

CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS

STATEMENT OF OPERATIONS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	CASH RESERVE FUND	MUTUAL EQUITY FUND	FIXED INCOME FUND	INTER- NATIONAL STOCK FUND	REAL ESTATE FUND	COMMERCIAL MORTGAGE FUND	PRIVATE INVESTMENT FUND	ELIMI- NATION ENTRY	TOTAL
<b>Investment Income</b>									
Dividends	\$ -	\$97,908,864	\$ 4,237,918	\$ 48,496,325	\$ 7,822,522	\$ 9,047,138	\$ 316,844,834	\$ -	\$484,357,601
Interest	34,567,405	1,086,329	336,353,398	864,340	122,382	64,841	1,900,432	(22,616,447)	352,342,680
Other Income	103,203	938,639	-	301,898	35,444	-	2,695,860	(67,523)	4,007,521
Securities Lending	-	4,698,471	14,686,868	5,537,417	-	-	-	-	24,922,756
<b>Total Income</b>	<u>34,670,608</u>	<u>104,632,303</u>	<u>355,278,184</u>	<u>55,199,980</u>	<u>7,980,348</u>	<u>9,111,979</u>	<u>321,441,126</u>	<u>(22,683,970)</u>	<u>865,630,558</u>
<b>Expenses</b>									
Investment Advisory Fees	402,399	13,885,595	8,787,612	12,077,535	1,217,754	417,400	5,742,250	(263,278)	42,267,267
Salary and Fringe Benefits	144,318	706,340	636,446	221,713	136,687	11,014	302,237	(94,423)	2,064,332
Custody and Transfer Agent Fees	64,609	144,142	179,513	575,022	33,524	3,244	234,516	(42,272)	1,192,298
Professional Fees	35,800	265,413	276,542	79,863	186,278	2,995	1,932,583	(23,423)	2,756,051
Security Lending Fees	-	351,772	964,177	740,115	-	-	-	-	2,056,064
Security Lending Rebates	-	3,390,218	11,123,203	2,677,727	-	-	-	-	17,191,148
Investment Expenses	25,952	50,855	42,808	15,478	3,406	572	25,162	(16,980)	147,253
<b>Total Expenses</b>	<u>673,078</u>	<u>18,794,335</u>	<u>22,010,301</u>	<u>16,387,453</u>	<u>1,577,649</u>	<u>435,225</u>	<u>8,236,748</u>	<u>(440,376)</u>	<u>67,674,413</u>
<b>Net Investment Income</b>	33,997,530	85,837,968	333,267,883	38,812,527	6,289,075	8,676,754	313,204,378	(22,243,594)	797,842,521
<b>Net Realized Gain (Loss)</b>	5,304	(343,085,583)	35,747,647	(263,021,093)	35,741,745	292,925	(32,317,579)	(3,470)	(566,640,104)
<b>Net Change in Unrealized Gain/(Loss) on Investments and Foreign Currency</b>	-	268,525,616	342,085,904	68,906,015	(27,635,527)	4,544,111	(532,641,824)	-	123,784,295
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	<u>\$34,002,834</u>	<u>\$11,278,001</u>	<u>\$711,101,434</u>	<u>\$(155,302,551)</u>	<u>\$14,508,917</u>	<u>\$13,513,790</u>	<u>\$(251,755,025)</u>	<u>\$(22,247,064)</u>	<u>\$355,100,336</u>

The accompanying notes are an integral part of these financial statements.

CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS

STATEMENT OF CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	CASH RESERVE FUND	MUTUAL EQUITY FUND	FIXED INCOME FUND	INTER- NATIONAL STOCK FUND	REAL ESTATE FUND	COMMERCIAL MORTGAGE FUND	PRIVATE INVESTMENT FUND	ELIMI- NATION ENTRY	TOTAL
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	\$34,002,834	\$11,278,001	\$711,101,434	\$(155,302,551)	\$14,508,917	\$13,513,790	\$(251,755,025)	\$(22,247,064)	\$355,100,336
Distributions to Unit Owners:									
Income Distributed	(34,002,834)	(81,939,912)	(337,711,176)	(37,331,253)	(43,390,906)	(7,672,406)	(317,149,939)	22,247,064	(836,951,362)
Returns of Capital	-	-	-	-	-	-	-	-	-
<b>Total Distributions</b>	(34,002,834)	(81,939,912)	(337,711,176)	(37,331,253)	(43,390,906)	(7,672,406)	(317,149,939)	22,247,064	(836,951,362)
Unit Transactions									
Purchase of Units by Participants	4,230,807,741	-	2,373,700	-	6,500,000	-	136,000,000	(3,076,184,458)	1,299,496,983
Redemption of Units by Participants	(3,820,988,323)	(7,461,041)	(292,414,969)	-	(23,000,000)	(6,819,600)	-	2,927,288,702	(1,223,395,231)
<b>Net Increase (Decrease) in Net Assets Resulting from Unit Transactions</b>	409,819,418	(7,461,041)	(290,041,269)	-	(16,500,000)	(6,819,600)	136,000,000	(148,895,756)	76,101,752
<b>Total Increase (Decrease) in Net Assets</b>	409,819,418	(78,122,952)	83,348,989	(192,633,804)	(45,381,989)	(978,216)	(432,904,964)	(148,895,756)	(405,749,274)
<b>Net Assets- Beginning of Period</b>	1,443,006,366	6,676,591,128	6,526,251,325	2,226,726,323	471,172,148	73,260,715	2,281,024,220	(991,877,876)	18,706,154,346
<b>Net Assets- End of Period</b>	\$1,852,825,784	\$6,598,468,176	\$6,609,600,314	\$2,034,092,519	\$425,790,159	\$72,282,499	\$1,848,119,256	\$(1,140,773,632)	\$18,300,405,072
Other Information:									
Units									
Purchased	4,230,807,741	-	21,285	-	108,173	-	1,894,328		
Redeemed	(3,820,988,323)	(11,927)	(2,595,969)	-	(378,490)	(96,971)	-		
Net Increase (Decrease)	409,819,418	(11,927)	(2,574,684)	-	(270,317)	(96,971)	1,894,328		

The accompanying notes are an integral part of these financial statements

CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS

STATEMENT OF CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	CASH RESERVE FUND	MUTUAL EQUITY FUND	FIXED INCOME FUND	INTER- NATIONAL STOCK FUND	REAL ESTATE FUND	COMMERCIAL MORTGAGE FUND	PRIVATE INVESTMENT FUND	ELIMI- NATION ENTRY	TOTAL
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	\$44,376,205	\$(1,190,922,442)	\$358,913,580	\$(231,497,727)	\$3,719,982	\$ 943,725	\$(287,576,485)	\$(29,929,254)	\$(1,331,972,420)
Distributions to Unit Owners:									
Income Distributed	(44,376,205)	(69,533,851)	(391,071,676)	(44,605,871)	(17,937,205)	(6,960,606)	(173,253,751)	29,929,254	(717,809,911)
Returns of Capital	-	-	-	-	-	-	-	-	-
<b>Total Distributions</b>	(44,376,205)	(69,533,851)	(391,071,676)	(44,605,871)	(17,937,205)	(6,960,606)	(173,253,751)	29,929,254	(717,809,911)
Unit Transactions									
Purchase of Units by Participants	3,629,718,263	9,045,806	28,621,965	-	13,500,000	-	166,500,000	(2,729,891,077)	1,117,494,957
Redemption of Units by Participants	(3,543,651,294)	(2,604,904)	(56,000,000)	-	(4,100,000)	(21,901,900)	(32,000,000)	2,705,490,723	(954,767,375)
<b>Net Increase (Decrease) in Net Assets Resulting from Unit Transactions</b>	86,066,969	6,440,902	(27,378,035)	-	9,400,000	(21,901,900)	134,500,000	(24,400,355)	162,727,582
<b>Total Increase (Decrease) in Net Assets</b>	86,066,969	(1,254,015,391)	(59,536,131)	(276,103,598)	(4,817,223)	(27,918,781)	(326,330,236)	(24,400,355)	(1,887,054,749)
<b>Net Assets- Beginning of Period</b>	1,356,939,397	7,930,606,519	6,585,787,456	2,502,829,921	475,989,371	101,179,496	2,607,354,456	(967,477,518)	20,593,209,101
<b>Net Assets- End of Period</b>	\$1,443,006,366	\$6,676,591,128	\$6,526,251,325	\$2,226,726,323	\$471,172,148	\$ 73,260,715	\$2,281,024,220	\$(991,877,873)	\$18,706,154,352
Other Information:									
Units									
Purchased	3,629,718,263	-	256,056	-	218,818	-	1,692,384		
Redeemed	(3,543,651,294)	(150)	(510,310)	-	(65,494)	(305,855)	(350,749)		
Net Increase (Decrease)	86,066,969	(150)	(254,254)	-	153,324	(305,855)	1,341,635		

The accompanying notes are an integral part of these financial statements

## NOTES TO FINANCIAL STATEMENTS

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Combined Investment Funds (the "Funds") are separate legally defined funds, which have been created by the Treasurer of the State of Connecticut (the "Treasurer") under the authority of the Connecticut General Statutes (CGS) Section 3-31b. The Funds are open-end, unitized portfolios consisting of the Cash Reserve Fund, Mutual Equity Fund, Mutual Fixed Income Fund, International Stock Fund, Real Estate Fund, Commercial Mortgage Fund and the Private Investment Fund. The Funds were established to provide a means for investing pension and other trust fund assets entrusted to the Treasurer in a variety of investment classes. The units of the Funds are owned by these pension and trust funds. For financial reporting purposes of the State of Connecticut, the Funds are considered to be internal investment pools and are not reported in the State's combined financial statements. Instead, each fund type's investment in the fund is reported as "equity in combined investment funds" in the State's combined balance sheet.

The Treasurer, as sole fiduciary of the Funds, is authorized to invest in a broad range of fixed income and equity securities, as well as real estate properties, mortgages and private equity. This authority is restricted only by statute. Such limitations include prohibitions against investment in companies doing business in Iran and those doing business in Northern Ireland, but who have failed to implement the MacBride Principles (CGS Section 3-13h). Other legislation restricts the maximum aggregate investment in equity securities to 60% of the fair value of the Trust Funds.

The Funds of the Treasurer are proprietary in nature; the activities in these funds are similar to those found in the private sector where the determination of net income is necessary or useful to sound financial administration. The generally accepted accounting principles ("GAAP") used for such funds are generally those applicable to similar businesses in the private sector. In accordance with Government Accounting Standards Board ("GASB") Statement No. 20, the Treasurer has elected to apply all GASB pronouncements, as well as all Financial Accounting Standards Board Statements, Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins, except those that conflict with GASB pronouncements. The Funds are not subject to regulatory oversight and are not registered with the Securities and Exchange Commission as an investment company.

The following is a summary of significant accounting policies consistently followed by the Funds in the preparation of their financial statements.

**A. NEW PRONOUNCEMENTS**

In an effort to improve disclosures associated with derivative contracts, the Government Accounting Standards Board (GASB) issued GASB Technical Bulletin No. 2003-1 (TB2003-1), *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*, effective for the periods ending after June 15, 2003, superseding Technical Bulletin 94-1.

TB 2003-1 supersedes Technical Bulletin 94-1 and clarifies guidance on derivative disclosures that are not reported at fair value on the statement of net assets and provides an updated definition of derivatives. For the fiscal year ended June 30, 2003, the funds maintained positions in a variety of such securities that are all reported at fair value on the statement of net assets.

During the fiscal year 2001-2002, the Treasurer's Office implemented GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The most notable change to the Office of the Treasurer financial statements is the inclusion of an introductory management's discussion and analysis.

**B. SECURITY VALUATION**

Investments are stated at fair value for each of the Funds as described below. For the Commercial Mortgage Fund, the investments listed on the Statement of Net Assets, other than the amounts invested in the Cash Reserve Fund, are shown at fair values provided to the Fund by the investment advisor, and adjusted, when appropriate, by the Treasurer's staff. For the Real Estate and Private Investment Funds and one limited partnership in the Mutual Fixed Income Fund, substantially all of the investments, other than

**NOTES TO FINANCIAL STATEMENTS (Continued)**

those in the Cash Reserve Fund, are shown at values that are estimated by the Treasurer's staff. Such estimations utilize the investment advisors' prior quarter end estimated fair value, plus or minus the appropriate related cash flows as described later in this section. The Treasurer's staff reviews the valuations for all investments in these alternative asset classes (Commercial Mortgage, Real Estate, and Private Investment Funds) to see that they are reasonable and consistent. Due to the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed and the differences could be material.

Cash Reserve Fund

Investments are valued at amortized cost, which approximates fair value. Repurchase Agreements held are collateralized at 102 percent of the securities' value. Such transactions are only entered into with primary government securities dealers who report directly to the Federal Reserve Bank of New York. The collateral is evaluated daily to ensure its fair value exceeds the current fair value of the repurchase agreements including accrued interest.

Mutual Equity Fund

Securities traded on securities exchanges are valued at the last reported sales price on the last business day of the fiscal year. Corporate bonds and certain over-the-counter stocks are valued at the mean of bid and asked prices as furnished by broker-dealers.

Mutual Fixed Income Fund

Investments are valued based on quoted market prices when available. For securities that have no quoted market value, fair value is estimated based on yields currently available on comparable securities of issuers with similar credit ratings.

An investment with a market value of \$31,244,883 and a cost value of \$44,897,812 is held through a limited partnership. At June 30, 2003 this investment had a reserve for loss of \$31,200,000. The fair value of the underlying securities is based on quoted market prices when available. When quoted market prices are not available, the underlying securities are valued by the General Partner at the fair value as determined in good faith under consistently applied procedures.

When-issued securities held are fully collateralized by U.S Government securities and such collateral is in the possession of the Fund's custodian. The collateral is evaluated daily to ensure its market value exceeds the current market value of the instruments including accrued interest.

The Mutual Fixed Income Fund invests in Mortgage Backed Securities (MBSs) and Asset Backed Securities (ABSs), which are included in the Statement of Net Assets. These are bonds issued by a special purpose trust that collects payments on an underlying collateral pool of mortgage or other loans and remits payments to bondholders. The bonds are structured in a series of classes or tranches, each with a different coupon rate and stated maturity date. Interest payments to the bondholders are made in accordance with the trust indentures and amounts received from borrowers in excess of interest payments and expenses are used to amortize the principal on the bonds. Such principal payments are made to retire the tranches of bonds in order of their stated maturity. Because mortgage prepayments are largely dependent on market interest rates, the ultimate maturity date of the bonds is unpredictable and is sensitive to changes in market interest rates, but is generally prior to the stated maturity date. At June 30, 2003, the Fund held MBSs of \$668,366,066 and ABSs of \$83,944,263.

Interest-only stripped mortgage backed securities (IOs), a specialized type of Collateralized Mortgage Obligation (CMO), are included as Mortgaged Backed Securities on the statement of Net Assets. The cash flow on these investments is derived from the interest payments on the underlying mortgage loans. Prepayments on the underlying loans curtail these interest payments, reducing the value of the IOs and, as such, these instruments are extremely sensitive to changes in interest rates, which encourage or discourage such prepayments. At June 30, 2003 the Fund's holdings had a fair value of \$6 million and a cost of \$26 million. The valuations were provided by the custodian.

Investments in non-U.S. fixed income securities are utilized on an opportunistic basis. Certain advisors within the Mutual Fixed Income Fund are authorized to invest in global fixed income securities.

**NOTES TO FINANCIAL STATEMENTS (Continued)**International Stock Fund

Investments in securities listed on security exchanges are valued at the last reported sales price on the last business day of the fiscal year; securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are valued at the mean of the last reported bid and asked prices.

Certain cash held in non-U.S. dollar denominated trading accounts is non-interest bearing.

Real Estate Fund

Investments in securities not listed on security exchanges and investments in trusts, limited partnerships, and annuities, which comprise substantially all of the Fund's investments, are carried at the cash adjusted fair value. The cash adjusted fair value utilizes the prior calendar quarter end fair value as estimated by the investment advisor, (i) plus cash flows relating to capitalized expenses and principal contributions disbursed from and (ii) minus amounts received by the Real Estate Fund, to estimate the current fair value. The Treasurer's staff reviews the prior quarter estimated fair values provided by the investment advisors for reasonableness. In those instances where an advisor's value appears to be overstated, this estimated fair value is adjusted accordingly. Additionally, the staff monitors the estimated cash adjusted fair values against the estimated values subsequently reported by the investment advisors. In the event of significant total Fund-level differences between the cash adjusted estimates and the investment advisors' estimated values, adjustments to the reported cash adjusted fair values are made to prevent overstatement. At June 30, 2003, the estimated investment values provided by the investment advisors, net of the adjustments noted above, exceeded cash adjusted fair values reported on the Statement of Net Assets by approximately \$4.1 million. Consistent with the cash adjusted fair value presentation this increase will be considered for the next quarter's adjustment.

Commercial Mortgage Fund

This Fund invests in commercial mortgage loans and mortgage backed securities generally through indirect ownership vehicles such as trusts and corporations. The value of the Fund's interest in these entities is based on the fair value of the underlying commercial loan portfolio or securities held. Fair value for the mortgage portfolio is computed by discounting the expected cash flows of the loans at a rate commensurate with the risk inherent in the loans. The discount rate is determined using the yield on U.S. Treasury securities of comparable remaining maturities plus an appropriate market spread for credit and liquidity risk. The Fund does not record fair values in excess of amounts at which the borrower could settle the obligation, giving effect to any prepayment premiums. In the event that the fair value of the loan collateral, based on an appraisal, is less than the outstanding principal balance, the collateral value is used as fair value. These calculations are performed by the investment advisor and reviewed by Treasury personnel.

The Mortgage Backed-Securities on the Statement of Net Assets consist of certificates of beneficial interest in a collateralized mortgage obligation (CMO) created pursuant to a securitization of a residential mortgage pool.

Private Investment Fund

The Private Investment Fund is comprised of investments in various limited partnerships, limited liability companies and securities. The general partner or managing member is the investment advisor and is compensated on a fee basis for management services in addition to its participation in partnership profits and losses. These investments are carried at their cash adjusted fair values. The cash adjusted fair value utilizes the prior quarter fair value as estimated by the investment advisor, (i) plus cash flows relating to capitalized expenses and principal contributions disbursed from and (ii) minus amounts received by the Private Investment Fund, to estimate the current fair value. The Treasurer's staff reviews the prior quarter estimated fair values provided by the investment advisors for reasonableness. In those instances where an advisor's value appears to be overstated, the estimated fair value is adjusted accordingly. Additionally, the staff monitors the estimated cash adjusted fair values against the estimated values subsequently reported by the investment advisors. In the event of significant total Fund-level differences between the cash adjusted estimates and the investment advisors' estimated values, adjustments of reported cash adjusted values are made to prevent overstatement. At June 30, 2003, the estimated investment values provided by the investment advisors, net of the adjustments noted above, exceeded cash adjusted fair



**NOTES TO FINANCIAL STATEMENTS (Continued)**

values reported on the Statement of Net Assets by approximately \$65.6 million. Consistent with the cash adjusted fair value presentation this increase will be considered for the next quarter's adjustment. Securities traded on securities exchanges are valued at the last reported sales price on the last business day of the fiscal year. Corporate bonds and certain over-the-counter stocks are valued at the mean of bid and asked prices as furnished by broker-dealers.

Fair values of the underlying investments are generally represented by cost unless there has been an additional arms-length indication of value, such as a public offering or a new investment by a third party.

**C. INVESTMENT TRANSACTIONS AND RELATED INCOME**

Investment transactions are accounted for on a trade date basis. Dividend income is recognized as earned on the ex-dividend date. Interest income is recorded on the accrual basis as earned. Realized gains and losses are computed on the basis of the average cost of investments sold. Such amounts are calculated independent of and are presented separately from the Net Change in Unrealized Gains and Losses on the Statement of Operations and the Statement of Changes in Net Assets. Realized gains and losses on investments held more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year(s) and the current year. Unrealized gains and losses represent the difference between the fair value and the cost of investments. The increase (decrease) in such difference is accounted for as a change in unrealized gain (loss). In the Funds' cost basis records, premiums are amortized using the straight-line method that approximates the interest method.

Dividends earned by the Private Investment, Real Estate, Commercial Mortgage Funds and one limited partnership in the Mutual Fixed Income Fund relate to investments that are not listed on security exchanges. Such dividends are recognized as income when received, generally net of advisory fees.

**D. FOREIGN CURRENCY TRANSLATION**

The value of investments, assets and liabilities denominated in currencies other than U.S. dollars are translated into U.S. dollars based upon appropriate fiscal year end foreign exchange rates. Purchases and sales of foreign investments and income and expenses are converted into U.S. dollars based on currency exchange rates prevailing on the respective dates of such transactions. The Funds do not isolate that portion of the results of operations arising from changes in the exchange rates from that portion arising from changes in the market prices of securities.

**E. SHARE TRANSACTIONS AND PRICING**

All unit prices are determined at the end of each month based on the net asset value of each fund divided by the number of units outstanding. Purchases and redemptions of units are based on the prior month end price and are generally processed on the first business day of the month.

**F. EXPENSES**

Expenses of the funds are recognized on the accrual basis and are deducted in calculating net investment income and net asset value on a monthly basis. Fees and expenses of the Real Estate Fund are generally recognized when paid, by netting them against dividends received. Each of the funds bears its direct expenses, such as investment advisory fees, and, in addition, each of the funds is allocated a portion of the overhead expenses of the Pension Funds Management Division of the Office of the State Treasurer, which services the funds. These expenses include salary and fringe benefit costs and other administrative expenses. Certain of these costs are allocated among the Funds based on relative net asset values. Other costs are charged directly based on the specific duties of personnel.

**G. DISTRIBUTIONS**

Net investment income earned by the Combined Investment Funds is distributed monthly to the unit owners of the funds, generally in the following month.

## NOTES TO FINANCIAL STATEMENTS (Continued)

**H. DERIVATIVE FINANCIAL INSTRUMENTS**

GASB Technical Bulletin No. 2003-1 defines a derivative instrument as a financial instrument or other contract with all three of the following characteristics: a) It has (1) one or more underlyings (a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates or other variable) and (2) one or more notional amounts (a number of currency units, shares, bushels, pounds, or other units specified in the contract). b) It requires no initial investment or smaller than would be required for other types of contracts. c) Its terms require or permit net settlement, it can readily be settled net by a means outside the contract, or it provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

For the fiscal year ended June 30, 2003, the funds maintained positions in a variety of such securities that are all reported at fair value on the statement of net assets. The Cash Reserve Fund held adjustable rate and asset-backed securities. The Mutual Fixed Income Fund held CMOs, including IOs, and other asset backed securities, indexed Treasury securities and option contracts. The International Stock and Mutual Fixed Income Funds were invested in foreign exchange contracts and the Commercial Mortgage Fund held CMOs and CMO residuals. The specific nature of these investments is discussed more fully in the accounting policy note for each respective fund, where appropriate. These financial instruments are utilized for trading and other purposes. Those that are used for other than trading purposes are foreign exchange contracts, which can be used to facilitate trade settlements, and may serve as foreign currency hedges. The credit exposure resulting from such contracts is limited to the recorded fair value of the contracts on the Statement of Net Assets.

The remaining such securities are utilized for trading purposes and are intended to enhance investment returns. All positions are reported at fair value and changes in fair value are reflected in income as they occur. The funds' credit exposure resulting from such investments is limited to the recorded fair value of the derivative financial instruments.

The Mutual Fixed Income and International Stock Funds also utilize derivatives indirectly through participation in mutual funds and a limited partnership. These mutual funds may hold derivatives from time to time. Such derivatives may be used for hedging, investment and risk management purposes. These transactions subject the investor to credit and market risk.

**I. COMBINATION/ELIMINATION ENTRY**

The financial statements depict a full presentation of each of the Combined Investment Funds. However, one of these funds, the Cash Reserve Fund, is owned both directly by the pension plans and trust funds which have accounts in the Fund, and also indirectly because each of the other Combined Investment Funds has an account with the Cash Reserve Fund. As a result, elimination entries are presented for the purpose of netting out balances and transactions relating to the ownership of the Cash Reserve Fund by the other Combined Investment Funds. The combined presentation totals to the overall net assets owned by the pension plans and trust funds.

**J. FEES AND REALIZED GAINS**

Investment advisory fees incurred for the Private Investment Fund are generally charged to the entity in which the Fund has been invested. In such cases, these amounts are either capitalized in the cost basis of the investment and become a component of unrealized gain (loss) or are netted against the corresponding income generated. Certain other fees are incurred directly by the Funds. These amounts are expensed and are reflected as Investment Advisory Fees on the Statement of Operations. The appropriate treatment is determined depending on the terms of the investment agreement. Capitalized fees are not separately presented on the Statement of Operations. These fees are borne by the partners in their respective shares. The following is a listing of the Fund's total fees for the fiscal year ended June 30, 2003:

	Netted	Capitalized	Expensed	Total
Private Investment Fund	\$ 18,117,904	\$ 16,532,851	\$ 5,742,250	\$ 40,393,005

## NOTES TO FINANCIAL STATEMENTS (Continued)

In addition, realized gains and losses are not reported at the level of the Fund's investment since these relate to realized gains and losses on the underlying securities held by the Funds' investment vehicles. The following is the Fund's share of such net realized gains and losses for the fiscal year ended June 30, 2003:

Private Investment Fund    \$ 302,068,577

Past practice of partnerships was to distribute realized gains on a consistent basis. Since inception \$48 million has not been distributed

Periodically the Private Investment Fund may receive stock distributions in lieu of cash. These securities are included as common stock on the Statement of Net Assets. When one of these individual securities is sold the realized gain or loss is presented on the Statement of Operations. Realized losses for such transactions for the fiscal year ended June 30, 2003 were \$1,658,853.

The Mutual Fixed Income Fund includes an investment in a mutual fund and a limited partnership interest. Fees incurred are deducted from the operations of the fund and are not separately presented on the Statement of Operations. The corresponding fees incurred for the fiscal year ended June 30, 2003 totaled \$220,382.

Investment advisory fees incurred for certain investments in the Real Estate Fund are generally charged to the entity in which the Fund has been invested. In such cases, these amounts are either capitalized in the cost basis of the investment and become a component of unrealized gain (loss) or are netted against the corresponding income generated. Certain other fees are incurred directly by the Funds. These amounts are expensed and are reflected as Investment Advisory Fees on the Statement of Operations. The appropriate treatment is determined depending on the terms of the investment agreement. Capitalized fees are not separately presented on the Statement of Operations. These fees are borne by the partners in their respective shares. The following is a listing of the Fund's total fees for the fiscal year ended June 30, 2003:

	Netted	Capitalized	Expensed	Total
Real Estate Fund	\$ 1,013,055	\$ 2,641,316	\$ 1,217,754	\$ 4,872,125

Investment advisory fees for the Cash Reserve, Mutual Equity, Mutual Fixed Income (except as noted above) and International Stock Funds are estimated monthly based on periodic reviews of asset values and performance results. Accordingly, the amounts listed as Investment Advisory Fees on the Statement of Operations represent estimates of annual management fee expenses.

#### **K. RECLASSIFICATIONS**

Certain prior year amounts have been reclassified to conform to the current year presentation.

#### **L. RELATED PARTY AND OTHER TRANSACTIONS**

There were no related party transactions during the fiscal year. Additionally, there were no "soft dollar" transactions. Soft dollar transactions result from arrangements whereby firms doing business with organizations such as the Treasury arrange for third parties to provide other services in lieu of cash payment. These arrangements tend to obscure the true cost of operations and can result in potential overpayment for services. Such transactions have been prohibited by the Treasurer.

#### **M. ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## NOTES TO FINANCIAL STATEMENTS (Continued)

**NOTE 2: CASH, INVESTMENTS AND SECURITIES LENDING**

Investments in the alternative asset classes generally utilize investment vehicles such as annuity contracts, common stocks, limited partnerships and trusts to comply with investment guidelines against direct ownership of such investment assets.

The investments of the Cash Reserve, Mutual Equity, Mutual Fixed Income and the International Stock Funds were securities registered under the State Street Bank and Trust Co. nominee name Pondwave & Co. and held by a designated agency of the Pension Plans and Trust Funds of the State of Connecticut, or bearer and held by a designated agency of the Pension Plans and Trust Funds of the State of Connecticut. Investments, as defined by GASB Statement No. 3, are categorized to give an indication of the credit risk assumed by the Treasurer at year-end. Category 1 includes investments which are insured or registered or for which securities are held by the Treasurer or its agent in the Treasurer's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Treasurer's name. Category 3 includes uninsured or unregistered investments for which the securities are held by the counterparty's trust department or agent, but not in the Treasurer's name. All registered securities, as noted above, are classified under GASB risk category 1, except as follows:

Amounts listed as Due to Brokers are for securities purchased which are held by broker-dealers and not classified as to credit risk. Amounts listed as Due from Brokers are for securities sold and would have been classified under category 1 of credit risk if they were included in Investments in Securities, at Fair Value on the Statement of Net Assets.

Investments of cash collateral received under securities lending arrangements are registered in the master custodian's name and are invested in a fund maintained by the master custodian exclusively for the Funds. Accordingly, these investments are classified under GASB risk category 3. In circumstances where securities or letters of credit are received as collateral under securities lending arrangements, the collateral is held by the master custodian in a commingled pool in the master custodian's name, as trustee. When "tri-party" collateral is received, the collateral consists of cash, letters of credit or securities but is held in a commingled pool by a third party master custodian in the Funds' master custodian's name. The collateral received is unable to be pledged or sold without borrower default. The underlying securities are classified under GASB risk category 3.

Private Investment Fund

Investments in the form of limited partnership and limited liability corporation interests are not evidenced by securities existing in physical or book entry form and therefore are not classified as to credit risk.

Commercial Mortgage Fund

At June 30, 2003, investments with a cost of \$47,366,367 and a fair value of \$49,485,756 in the form of common stock certificates are classified as category 1. Other Funds on Deposit represent portfolio level net assets consisting of escrow accounts. These are maintained by the portfolio manager and are not classified, as they are not investments.

The composition of the Fund's investment portfolio by the underlying assets in which the investee corporations and trusts are invested in are as follows at June 30, 2003:

<u>Investment</u>	<u>Fair Value</u>	<u>Cost</u>
Cash Reserve	\$21,575,500	\$21,575,500
Commercial Mortgage loans	49,485,756	47,366,367
CMO's	929,622	929,622
Total	<u>\$71,990,878</u>	<u>\$68,871,489</u>

Real Estate Fund

Certain investments in the form of common stock certificates with a cost of \$32,562,540 and a fair value of \$64,338,120 are classified under risk category 1.

The remaining investments, which comprise the substantial majority of the Fund's investments, are in the form of annuities and limited partnerships and are not evidenced by securities existing in physical or book entry form and are therefore not classified as to credit risk.

**CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

Summary of Credit Risk Categories

Breakdown investment type of the GASB 3 credit risk categories is as follows:

<u>Carrying Amount (Fair Value)</u>				
<b>Investment Type</b>	<b>Category 1</b>	<b>Category 2</b>	<b>Category 3</b>	<b>Total</b>
Cash Equivalents	\$ 767,206,065			\$ 767,206,065
Asset Backed	788,036,729			788,036,729
Government	1,085,377,706		\$ 62,980,926	1,148,358,632
Agency	602,237,110		87,042,758	689,279,868
Mortgage Backed	739,455,589			739,455,589
Corporate Debt	2,480,415,623			2,480,415,623
Convertible	61,098,042			61,098,042
U.S. Corporate Stock	6,246,529,616		9,567,255	6,256,09,6,871
International Equity	1,633,803,067		994,440	1,634,797,507
Preferred Stock	34,101,676			34,101,676
Collateral Securities held by Investment Pool under Securities Lending Arrangements:				
Other			235,714,048	235,714,048
Corporate Debt			1,192,945,992	1,192,945,992
<b>SUBTOTAL</b>	<u>\$14,438,261,223</u>	\$ -	<u>\$1,589,245,419</u>	<u>\$16,027,506,642</u>

Investments not categorized because they are not evidenced by securities that exist in physical or book entry form:

Real Estate Investment Trusts	67,885,449
Mutual Funds	46,091,973
Limited Liability Corporation	35,563,437
Trusts	49,683,820
Limited Partnerships	2,042,184,387
Annuities	12,400,831
Investments held by broker-dealers under securities loans:	
U.S. Government and Agency	621,220,042
U.S. Corporate Stock	347,361,288
International Equity	274,857,496
Domestic Fixed	133,224,641
International Fixed	2,795,602
<b>Total Investments</b>	<u>\$ 19,660,775,608</u>

Cash balances included on the Statement of Net Assets of \$23,896,113 are fully insured by the FDIC and are, therefore, classified as Category 1.

Cash Equivalents listed on the breakdown by investment type under Category 1 consist of corporate debt. Other as reported under Category 3 consist of deposits.

Securities Lending

Certain of the Combined Investment Funds engage in securities lending transactions to provide incremental returns to the Funds. The Funds are permitted to enter into securities lending transactions pursuant to Section 3-13d of the Connecticut General Statutes. The Funds' master custodian is authorized to lend available securities to authorized broker-dealers and banks subject to a form loan agreement.

During the period ended June 30, 2003, the master custodian lent, at the direction of the Funds, securities and received cash (in both U.S. and foreign currency), U.S. government securities, sovereign debt rated A or better, convertible bonds, and irrevocable bank letters of credit as collateral. The master custodian did not have the ability to pledge or sell collateral securities delivered therefore absent a borrower default. Borrowers were required to deliver collateral for each loan equal to: (i) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments, 102% of the market value of the loaned securities; and (ii) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105% of the market value of the loaned securities.

The Funds did not impose any restrictions during the fiscal year on the amount of the loans that the master custodian made on its behalf and the master custodian indemnified the Funds by agreeing to

## NOTES TO FINANCIAL STATEMENTS (Continued)

purchase replacement securities, or return the cash collateral thereof in the event any borrower failed to return the loaned securities or pay distributions thereon. There were no such failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers of the master custodian. During the fiscal year, the Funds and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in an individual account known as the State of Connecticut Collateral Investment Trust. On June 30, 2003, the Funds had no credit risk exposure to borrowers. The value of collateral held and the market value of securities on loan for the Funds as of June 30, 2003 were \$1,593,838,263 and \$1,540,044,448, respectively.

Under ordinary circumstances, the average effective duration of the security lending operations will be managed such that it will not exceed 120 days, or fall below 1 day. Under such ordinary circumstances, the net duration, as defined by the duration of assets less the duration of liabilities, will not exceed 45 days. In the event that the average effective duration does exceed 120 days, or the net duration does exceed 45 days for any 3-day period, the Trustee shall, (i) notify the Funds within 5 business days and (ii) take appropriate action as is reasonable to return an average effective duration below 120 days or a net duration below 45 days. The average effective duration is calculated using the weighted average effective duration of holdings. The average effective duration of the security lending program at June 30, 2003 was 63 days.

The average effective duration is managed to be within 45 days due to the inability to monitor the weighted average duration of liabilities. The weighted average duration of liabilities is assumed to remain at 1 day.

The fair value of collateral held and the fair value of securities on loan are as follows for the Funds as of June 30, 2003:

<b>Fund</b>	<b>Fair Value of Collateral</b>	<b>Fair Value of Securities Lent</b>
Mutual Equity	\$ 349,439,411	\$ 338,844,102
International Stock	309,999,745	293,873,766
Mutual Fixed Income	936,638,798	907,326,580
Total	<u>\$1,596,077,954</u>	<u>\$1,540,044,448</u>

Investments made using the cash collateral received from security loans were included in the Statement of Net Assets. The fair value of these amounts is as follows:

<b>Fund</b>	<b>Cash Equivalents</b>	<b>Corporate Debt</b>	<b>Total Investments</b>
Mutual Equity	\$ 55,940,313	\$ 283,113,258	\$ 339,053,571
International Stock	50,897,167	257,589,955	308,487,123
Mutual Fixed Income	128,876,568	652,242,778	781,119,346
Total	<u>\$235,714,048</u>	<u>\$1,192,945,992</u>	<u>\$1,428,660,039</u>

These amounts are categorized in the Summary of Credit Risk Categories as Category 3 in that they are invested in a pool which is maintained solely on behalf of the Funds, but whose investments are held in the master custodian's name. The above total amounts were included on the Statement of Net Assets in "Invested Securities Lending Collateral".

**NOTE 3: PURCHASES AND SALES OF INVESTMENT SECURITIES**

For the period ended June 30, 2003, the aggregate cost of purchases and proceeds from sales of investment securities (excluding all U.S. Government securities and short-term securities) were as follows:

<b>Fund</b>	<b>Purchases</b>	<b>Sales</b>
Mutual Equity	\$ 5,409,781,273	\$ 5,410,672,811
Mutual Fixed Income	24,832,056,246	24,585,249,227
International Stock	807,080,854	956,192,244
Real Estate	21,140,290	41,192,027



CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS

NOTES TO FINANCIAL STATEMENTS (Continued)

Commercial Mortgage	-	18,814,495
Private Investment	251,853,928	1,686,697

The above amounts include the effect of cost adjustments processed during the year.

**NOTE 4: UNREALIZED APPRECIATION AND DEPRECIATION ON INVESTMENTS AND FOREIGN EXCHANGE CONTRACTS**

At June 30, 2003, the gross appreciation of investment securities and foreign currency in which there was an excess of fair value over cost, the gross depreciation of investment securities and foreign currency in which there was an excess of cost over fair value and the resulting net appreciation (depreciation) by fund were as follows:

Fund	Gross Appreciation	Gross Depreciation	Net Appreciation (Depreciation)
Mutual Equity	\$1,052,478,360	\$496,696,754	\$ 555,781,606
Mutual Fixed Income	367,324,126	141,796,008	225,528,118
International Stock	248,947,190	270,240,846	(21,293,656)
Real Estate	81,699,906	55,209,058	26,490,848
Commercial Mortgage	2,119,389	-	2,119,389
Private Investment	194,437,578	765,119,907	(570,682,329)

**NOTE 5: FOREIGN EXCHANGE CONTRACTS**

From time to time the International Stock, Mutual Fixed Income, and Private Investment Funds utilize foreign currency contracts to facilitate transactions in foreign securities and to manage the Funds' currency exposure. Contracts to buy are used to acquire exposure to foreign currencies, while contracts to sell are used to hedge the Funds' investments against currency fluctuations. Also, a contract to buy or sell can offset a previous contract. Losses may arise from changes in the value of the foreign currency or failure of the counterparties to perform under the contracts' terms.

The U. S. dollar value of forward foreign currency contracts is determined using forward currency exchange rates supplied by a quotation service.

Investing in forward currency contracts may increase the volatility of the Funds' performance. Price movements of currency contracts are influenced by, among other things, international trade, fiscal, monetary, and exchange control programs and policies; national and international political and economic events; and changes in worldwide interest rates. Governments from time to time intervene in the currency markets with the specific intent of influencing currency prices. Such intervention may cause certain currency prices to move rapidly. Additionally, the currency markets may be particularly sensitive to interest rate fluctuations.

At June 30, 2003, the Funds had recorded unrealized gains (losses) from open forward currency contracts as follows:

International Stock Fund:		
Foreign Currency	Value	Unrealized Gain/(Loss)
<b>Contracts to Buy:</b>		
Australian Dollar	\$ 5,731,857	\$ (4,224)
Brazilian Real	329,314	(230)
Danish Krone	12,208,452	(17,561)
Euro Currency	204,868,249	800,801
Hong Kong Dollar	9,223,711	1,091
Indonesian Rupiah	368,613	(1,707)
Japanese Yen	172,082,779	(1,617,664)
Malaysian Ringgit	16,926	(11)
New Zealand Dollar	902,242	(1,478)
Norwegian Krone	1,914,645	(16,258)
Polish Zloty	133,245	(135)
Pound Sterling	16,151,828	(197,760)
Singapore Dollar	2,814,979	(36,247)
South African Rand	1,036,012	6,700
South Korean Won	43,496	(259)

CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS

NOTES TO FINANCIAL STATEMENTS (Continued)

Swedish Krona	11,931,984	(242,909)
Swiss Franc	3,261,000	(37,757)
Turkish Lira	175,308	73,278
	<u>443,194,640</u>	<u>(1,292,330)</u>
<b>Contracts to Sell:</b>		
Australian Dollar	37,257,639	(548,716)
Swiss Franc	73,003,384	1,258,805
Danish Krone	6,893,892	58,347
Euro Currency	577,492,716	(97,264)
Hong Kong Dollar	14,544,677	(2,013)
Indonesian Rupiah	155,947	(2,217)
Japanese Yen	454,978,265	7,632,848
Malaysian Ringgit	26,784	(18)
New Zealand Dollar	2,993,902	(15,193)
Norwegian Krone	13,947,925	46,279
Pound Sterling	194,400,853	1,684,305
Singapore Dollar	16,048,112	170,930
Swedish Krona	22,540,094	127,115
	<u>1,414,284,190</u>	<u>10,313,208</u>
Total	<u>\$1,857,478,830</u>	<u>\$ 9,020,878</u>

**Financial Statement Amounts:**

	Receivable	Payable	Net
Amount In US Dollars	\$ 1,857,478,830	\$ 1,857,478,830	\$ -
Unrealized Gain (Loss)	(1,292,330)	10,313,208	9,020,878
Net	<u>\$ 1,856,186,500</u>	<u>\$ 1,847,165,622</u>	<u>\$ 9,020,878</u>

**Mutual Fixed Income Fund:**

Foreign Currency	Value	Unrealized Gain/(Loss)
<b>Contracts to Buy:</b>		
Canadian Dollar	\$ 34,720,854	\$ 156,855
Swedish Krona	2,047,703	(30,100)
	<u>36,768,557</u>	<u>126,755</u>
<b>Contracts to Sell:</b>		
Canadian Dollar	47,296,507	(1,434,799)
Euro Currency	63,616,103	(147,132)
Swedish Krona	16,030,078	(12,889)
	<u>126,942,688</u>	<u>(1,594,820)</u>
	<u>\$163,711,245</u>	<u>\$(1,468,065)</u>

**Financial Statement Amounts:**

	Receivable	Payable	Net
Amount In US Dollars	\$163,711,245	\$ 163,711,245	\$ -
Unrealized Gain (Loss)	126,755	(1,594,820)	(1,468,065)
Net	<u>\$163,838,000</u>	<u>\$ 165,306,065</u>	<u>\$(1,468,065)</u>

The net unrealized gain has been included in the Statement of Operations as a component of Net Change in Unrealized Gain (Loss) on Investments.

**NOTE 6: COMMITMENTS**

In accordance with the terms of the individual investment agreements, the Private Investment Fund and the Real Estate Fund have outstanding commitments to make additional investments. These commitments will be fulfilled as suitable investment opportunities become available. Unfunded commitments at June 30, 2003, were as follows:

Fund	Total Commitment	Cumulative Amounts Funded	Unfunded Commitment
Real Estate	\$ 361,684,364	\$ 352,679,678	\$ 9,004,686
Private Investment	3,792,478,591	3,049,962,816	742,515,775



CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS

NOTES TO FINANCIAL STATEMENTS (Continued)

**NOTE 7: CONTINGENCY**

There was no pending or threatened litigation against the Combined Investment Funds during the fiscal year ending June 30, 2003. During the fiscal year ending June 30, 2002, the Treasurer on behalf of the Combined Investment Funds, filed an action against a general partner of a Private Investment Fund investment alleging breach of contract, breach of fiduciary duty and certain securities law violations. The Treasurer continues to vigorously prosecute this action. The potential dollar value of the claim exceeds \$100,000,000. It is believed the defendants, collectively, have the ability to satisfy any judgment in this matter. In addition a limited partnership in the Private Investment Fund has obtained two writs of summons including one against a former general partner and another against a business associate. This matter is pending in the courts of the Commonwealth of Pennsylvania.

**NOTE 8: SUBSEQUENT EVENTS**

The Treasurer intends to sever all ties with Triumph Capital Group. The Private Investment Fund holds three investments and the Mutual Fixed Income Fund holds one investment each in limited partnerships that are managed by Triumph Capital Group. Triumph Capital Group and its' general counsel were convicted on federal charges of bribery, racketeering, conspiracy and obstruction of justice. Triumph Capital Group's managing partner and a consultant plead guilty to federal crimes subsequent to the conviction of the company.

The Treasurer has requested that the United States Attorney for Connecticut and the Securities and Exchange Commission investigate alleged connections between certain principals of a partnership in which the Private Investment Fund has a limited partnership interest and individuals involved in criminal and improper activities.

On July 11, 2003 a limited partnership in the Private Investment Fund entered into a definitive purchase agreement for sale of interests in its entire portfolio.

**NOTE 9: COST BASIS OF INVESTMENTS.**

The aggregate cost values of investments in the Funds are as follows at June 30, 2003:

	CASH RESERVE FUND	MUTUAL EQUITY FUND	MUTUAL FIXED INCOME FUND	INTERNATIONAL STOCK FUND	REAL ESTATE FUND	COMMERCIAL MORTGAGE FUND	PRIVATE INVESTMENT FUND
Investments, at Cost							
Cash Reserve Fund	\$ -	\$ 69,776,180	\$ 928,200,087	\$ 48,715,341	\$ 5,760,649	\$21,575,500	\$ 66,745,869
Cash Equivalents	756,815,973	-	3,740,000	6,650,092	-	-	-
Asset Backed Securities	704,090,895	-	82,210,883	7,819	-	-	-
Government Securities	-	-	1,305,088,209	-	-	-	-
Government Agency Securities	40,684,790	-	1,854,001,287	-	-	-	-
Mortgage Backed Securities	89,486,965	-	672,525,224	-	-	929,622	-
Corporate Debt	260,527,996	65	2,074,534,276	51,569	-	-	23,260,800
Convertible Securities	-	-	57,830,366	5,993,674	-	-	-
Common Stock	-	5,917,863,189	11,635,049	1,954,846,576	32,562,540	47,366,367	7,352,849
Preferred Stock	-	-	2,149,042	31,325,585	-	-	-
Real Estate Investment Trust	-	59,640,878	6,007,443	-	-	-	-
Mutual Fund	-	-	40,069,497	-	-	-	-
Limited Liability Corporation	-	-	-	-	-	-	69,307,495
Trusts	-	-	-	-	34,566,655	-	-
Limited Partnerships	-	-	44,897,812	-	285,103,621	-	2,246,915,335
Partnerships	-	-	-	-	-	-	-
Annuities	-	-	-	-	41,408,696	-	-
Total Investments, at Cost	\$1,851,606,619	\$6,047,280,312	\$7,082,889,175	\$2,047,590,656	\$399,402,161	\$69,871,489	\$2,413,582,348



# **Investment Section**



# 2003 pension fund management division

## Division Overview

### Introduction

As principal fiduciary of six State pension funds and eight trust funds, (known collectively as the "Connecticut Retirement Plans and Trust Funds" or "CRPTF"), the Treasurer is responsible for prudently managing \$18.3 billion of assets on behalf of approximately 160,000 teachers, State and municipal employees as well as trust funds that support academic programs, grants, and initiatives throughout the State. The Pension Funds Management Division ("PFM") is responsible for the day-to-day administration of the CRPTF.

Prudent investment management not only affects the retirement security of the beneficiaries, but the size of the State budget as well. Funding of the pension benefit liability is dependent on investment returns, State (taxpayer) contributions and the contribution requirements of retirement plan members. If investment returns fall below the actuarial target return, more tax dollars may need to be contributed to ensure full payment of benefits. When pension investment returns exceed the target return, excess returns are applied against the unfunded liability.

As shown in Figure 1-1, over the last ten years pension and trust assets have grown from \$10.6 billion to \$18.3 billion, or 72.6%. The Teachers' Retirement Fund (TERF), with \$9.8 billion under management at June 30, 2003, is the largest participating fund, followed by the State Employees' Retirement Fund (SERF) and the Municipal Employees' Retirement Fund (MERF) with \$7.0 billion and \$1.2 billion, respectively. During the fiscal year ended June 30, 2003, total annual investment returns, comprising interest income, dividends, securities lending income, and net realized and unrealized capital gains, net of Fund operating expenses, were \$355 million. (See figure 1-2.)

### Organization/Staff Review

Under the supervision of a Chief Investment Officer, the Division executes and manages the investment programs of the pension and trust funds. The fourteen-member professional staff are responsible for: analyzing plan liabilities; recommending asset allocation policy; recommending, monitoring, and reporting on the investment advisors retained to invest the State's pension and trust assets. In addition, PFM reviews the custodian accounting of plan assets to ensure that earnings are properly determined and properly distributed to each plan and trust in accordance with their pre-determined share. Through reports, analysis, and presentations to the Treasurer and the Investment Advisory Council, PFM staff detail investment performance of the pension funds and trust assets. The Division's operations are conducted through three units: Investment Oversight, Accounting and Control, and Performance and Analysis. State Street Bank and Trust, as the custodian of record for the CRPTF retains physical custody of, safeguards, and provides record keeping services for plan assets under the supervision of PFM staff.

### Operating Expenses

The Division allocates all operating overhead directly to the earnings of the pension and trust fund assets under management. It is therefore incumbent upon the Division to manage assets in a cost-effective manner consistent with maximizing long-term returns.

### Fund Management

The Treasurer employs external advisors to invest each Fund. Advisors are selected based on asset class expertise, investment performance and style and are expected to comply with the parameters, guidelines, and restrictions set forth in the Investment Policy Statement.

As of June 30, 2003, 65 external advisors were employed by the Treasury to invest the pension and trust assets, a decrease of three advisors from June 30, 2002. (See figure 1-5.)

## Investment Policy

It is an immutable principle of pension fund management that the decision on how fund assets are allocated represents as much as 90% of the resulting returns. In April 2002, the Investment Advisory Council approved the Investment Policy Statement ("IPS") including the asset allocation plan, which governs Fund investments today. The asset allocation plan's main objective is to maximize investment returns over the long term at an acceptable level of risk, primarily through asset diversification. Risk, in this context, is defined as volatility of investment returns. (See the Understanding Investment Performance discussion in the Supplemental Section.)

Diversification across asset classes is a critical component in structuring portfolios to maximize return at a given level of risk. Likewise, asset allocation is used to minimize risk while seeking a specific level of return. In selecting an asset allocation strategy, there is a careful examination of the expected risk/return tradeoffs, correlation of investment returns, and diversification benefits of the available asset classes (i.e., those not restricted by statute) under different economic scenarios.

As shown in Figure 1-3, the number and complexity of asset classes comprising the asset allocation policy have fluctuated during the last ten years. New asset classes have been introduced to diversify the pension and trust assets while changing economic environments have required different allocation strategies. As of June 30, 2003, multiple asset classes were included in the Investment Policy, including U.S. Equity, International Equity, U.S. Fixed Income, Equity Real Estate, and Alternative Investments.

At fiscal year-end, domestic and international equities comprised the largest asset allocation, at 47.2%. Equities have an established record of maximizing investment returns over the long term. Fixed income and alternative investments were also included to allow the Fund both to leverage portfolio returns during highly inflationary or deflationary environments and to mitigate the effects of volatility in the stock market.

To realize the allocations set forth in the Asset Allocation Plan, the Division operates seven Combined Investment Funds ("CIF" or the "Funds") as a series of mutual funds in which the pension and trust funds may invest through the purchase of ownership interests. Each Fund is designed to replicate one or more of the six asset classes outlined in the Policy.

## Domestic Equity

Management of the equity portfolio uses both a pure indexing and enhanced indexing strategy. Enhanced indexing involves identifying, through market analysis and research, those securities in the index which are most likely to under-perform, and discarding them from the portfolio. This is achieved while maintaining industry weightings consistent with the overall index. The goal of enhanced indexing is to generate a return slightly in excess of the selected index. Indexing is a particularly appropriate strategy for the "large-cap" segment of the equity markets, which is defined as the securities of the largest capitalized public companies, typically comprising the major market indices. Significant research demonstrates that the U.S. equity markets, particularly the large-cap segment, are widely considered the world's most "efficient" markets, and therefore are the most difficult to "beat" with active investment management.

Within the "small- and mid-cap" sections of the equity markets, active management continues to allow pension funds the opportunity to achieve enhanced returns. Small- and mid-cap securities are issued by companies that are much smaller and not as closely monitored, researched or analyzed as the larger capitalization companies. Consequently, the small-cap segment of the U.S. equity market is less efficient. Certain active investment advisors are therefore more likely to outperform the markets over the long term, while earning an acceptable level of return per unit of risk. The Fund measures its performance against the Russell 3000 Index. During fiscal 2003, the Treasurer terminated one large cap manager due to organizational and performance issues.

As currently structured, the domestic equity portfolio replicates the approximate capitalization of the market as a whole with 75% of the Fund invested in large-cap stocks and 25% in small/mid-cap stocks. Approximately 86% of the entire domestic equity portfolio adheres to an indexing or enhanced indexing strategy.

## International Equity

During fiscal year 2000, the structure of the International Stock Fund (ISF) was revised to reflect the long-term performance objectives of this asset class. It was determined that the Fund would consist of a series of externally managed equity portfolios which, in aggregate, are structured to achieve long-term performance consistent with non-U.S. equity markets and add diversification of the total portfolio. The ISF's hybrid benchmark is 83% of the Citigroup Europe Pacific Asia Composite Broad Market Index -half-hedged and 17% of the Morgan Stanley Emerging Markets Free Index. During fiscal 2002, the Treasurer, with the endorsement of the Investment Advisory Council selected 12 advisors to manage six mandates established as a result of the ISF structure review. At fiscal year end, implementation was nearly completed.

The ISF performance objective is to outperform the hybrid benchmark net of management fees by 100 basis points per annum over rolling five-year time periods.

## Fixed Income

The Mutual Fixed Income Fund (MFIF) serves as an investment tool for the Pension and Trust Funds with the goal of reducing volatility in Fund returns under various economic scenarios. During periods of low inflation, fixed income investments may enhance the overall performance of the Pension and Trust Funds, while in times of moderate inflation and high nominal interest rates, these investments may contribute investment returns. During fiscal year 2003, the Office of the Treasurer completed a structure review for the Fund as part of its continuing implementation of the Asset Allocation Policy and strategy for the Mutual Fixed Income Fund. The new benchmark is a hybrid comprising 73% Lehman Brothers Aggregate (LB Aggregate), 17% Citigroup High Yield Market Index, and 10% JP Morgan Emerging Markets Bond Index (JP EMBI+), and the Fund's goal is to exceed the return of the hybrid index by 65-135 basis points per annum over rolling five-year periods.

The current fixed income structure includes: passive core fixed income (20%), active core fixed income (50%), inflation linked bonds (3%), high yield (16%), and emerging market debt (10%). Implementation is in process and will be completed during the fiscal year 2004.

## Real Estate and Private Equity Investments

The strategic asset allocation that was established for the real estate asset class was 5%, and 11% for private equity. The Real Estate Fund (REF) is an externally managed fund that invests in real estate properties and mortgages. It serves as a long-term investment tool for the pension funds and is designed to dampen volatility of overall returns through diversification and to provide long-term rates of return similar to the Mutual Equity Fund. During fiscal 2003, the funds recently engaged consultant assisted the Treasury in the development of Asset Class Guidelines for Real Estate. These Guidelines were adopted by the Treasurer and approved by the Investment Advisory Council subsequent to fiscal year end. The Private Investment Fund (PIF) investments are in externally managed separate accounts or limited partnerships 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. It is anticipated that as these markets evolve through future economic cycles, the policies and procedures within the IPS will adjust to these movements.

## Securities Lending

The Treasury maintains a securities lending program for the Combined Investment Funds designed to enhance investment returns. This program involves the lending of securities to broker/dealers secured by collateral valued slightly in excess of the market value of the loaned securities. Typically, the loaned securities are used by broker/dealers as collateral for repurchase agreements and other structured investment products, as well as to cover short sales,



customer defaults, dividend recapture, and arbitrage trades. To mitigate the risks of securities lending transactions, the master custodian carefully monitors the credit ratings of each counterparty and overall collateral level. Collateral held is marked-to-market on a daily basis to ensure adequate coverage.

State Street Bank and Trust Company, the current master custodian for the Funds, is responsible for marketing the program, lending the securities, and obtaining adequate collateral. For the year ended June 30, 2003, securities with a market value of approximately \$1.5 billion had been loaned against collateral of approximately \$1.6 billion. Income generated by securities lending totaled \$5.7 million for the fiscal year.

## The Year in Review

### Total Fund Performance

During the fiscal year ended June 30, 2003, the State of Connecticut Retirement Plans and Trust Funds (CRPTF) achieved an annual total return of 2.49%, net of all expenses, underperforming the total fund benchmark (defined below) return of 3.88% by 139 basis points. During the fiscal year, the value of CRPTF's portfolio declined from \$18.7 billion to \$18.3 billion. The \$0.4 billion decrease was primarily due to net realized gain (loss) on investments and negative operating cash flow. This latter amount was comprised of pension payments to beneficiaries of \$943 million that were offset by net contributions from unit holders of \$182 million, for a net outflow of \$761 million. In addition, funds generated by operations increased net assets by \$.4 billion. Funds from operations were comprised of net investment income of \$798 million, realized losses of \$567 million and unrealized appreciation of approximately \$124 million.

For the fiscal year, the CRPTF's underperformance relative to the total fund benchmark was largely attributable to the Private Investment Fund (PIF). The International Stock Fund (ISF), Commercial Mortgage Fund (CMF), and Cash Reserve Fund (CRA) produced strong relative returns. Offsetting these strong results were the Mutual Equity Fund (MEF), Mutual Fixed Income Fund (MFIF), Real Estate Fund (REF), and the Private Investment Fund, which produced below benchmark returns.

The 2003 fiscal year saw continuing economic uncertainty with slow global growth and a job resistant recovery. Additionally, the lead-up to and ensuing war in Iraq, plus a global outbreak of the SARS virus, injected volatility into global markets, which resulted in fluctuating equity and currency markets. The U.S. economy slowly emerged from recession, but struggled to create meaningful job growth. To fuel growth, the Federal Reserve continued to actively pursue an expansionary monetary policy, lowering the Federal Funds rate to 1%, the lowest level since 1958. The unemployment rate was 6.4% as of June 2003, marginally higher than the 5.8% rate at the beginning of the fiscal year.

The U.S. equity market was distinguished by two remarkably different stages in fiscal year 2003. While the first three quarters of the fiscal year produced continued negative returns, the final three months of the fiscal year rebounded with significant gains. The rebound was pronounced, as the U.S. equity market produced quarterly gains not seen in over 18 months. As a result, all broad U.S. equity indices returned slightly positive or only slightly negative returns for fiscal year 2003 – a remarkable contrast to the significantly negative returns of the past two fiscal years. The broad market Russell 3000 Index gained 0.8% in the fiscal year ending June 30, 2003. Within the asset class, mid cap stocks fared better than their large-cap and small-cap counterparts, gaining 0.9% over the fiscal year versus 0.9% and negative 1.6%, respectively (as measured by the Russell indices). In terms of investment style, value stocks significantly outperformed growth stocks in small cap, but growth stocks rebounded from previous declines to outperform their value counterparts in large and mid cap stocks. The Mutual Equity Fund (MEF) underperformed its index (Russell 3000) by 29 basis points.

Facing challenges similar to the U.S. economy, developed international economies experienced a modest recovery in fiscal year 2003. Likewise, the negative equity performance of the first three quarters of the year were offset by the strong rebound in equity returns during the



second quarter of 2003. Despite this rebound, however, international stocks finished the fiscal year in negative territory. The SSB EPAC BMI Index, a broad measure of international equity markets, declined 4.5% in U.S. dollar terms. Over the fiscal year, the dollar appreciated against a basket of foreign currencies, dampening the performance of hedged mandates. This appreciation over the entire year hides a significant reversal of global currency markets, however, as the dollar fell considerably in the second quarter of 2003. Specifically, the Euro and Japanese Yen appreciated against the dollar late in the fiscal year. In terms of style, international value stocks beat their growth counterparts, and small caps outpaced large caps. The emerging markets were very strong during the fiscal year, rising 7.0% as measured by the MSCI EMF Index. Venezuela, Indonesia and Russia contributed to the index gains as each benefited from a global cyclical recovery and rising energy prices. CRPTF's International Stock Fund outperformed its benchmark by 23 basis points. The International Stock Fund benchmark is comprised of 83% Citigroup EPAC BMI Index 50% Hedged Index, and 17% MSCI Emerging Markets Free Index.

The U.S. fixed income markets continued to produce strong performance over the fiscal year, buoyed by the declining interest rates and a risk aversion to the equity markets. The broad market LB Aggregate Index gained 10.4% during the fiscal year. The credit sector was the strongest sector during the fiscal year as rising investor confidence and improving fundamentals of corporations caused historically high credit spreads to contract during the fiscal year – therefore inversely causing credit bond prices to rise. The rise in confidence was equally pronounced in the U.S. high yield market, which rose 10.2% for the fiscal year, as measured by the SSB High Yield Market Index. Similar to investment grade corporate securities, high yield bonds benefited from improving fundamentals and signs of a cyclical economic recovery. Emerging market bonds were the strongest segment of the global fixed income markets gaining 35.3%, per J.P. Morgan EMBI+ index. Significant rebounds after the Latin American economic crisis in fiscal year 2002 and increasing evidence of a global economic recovery boosted fiscal year results. The Mutual Fixed Income Fund suffered from its over-allocation to the core fixed income segment, and an under-representation to the emerging debt and high yield sectors. As a result, the Fund underperformed its benchmark by 350 basis points with a return of 12.0%. The Mutual Fixed Income benchmark, consisting of 73% Lehman Brothers Aggregate Index (LBA), 17% Salomon High Yield Market Index, and 10% JPM Emerging Markets Bond Index, posted a return of 15.5% for fiscal year 2003.

Despite the Private Investment Fund outperforming the Venture Economics All Private Equity Index by 280 basis points, the overall net returns were negative 11.9%. The private equity markets, in particular, continued its downturn from fiscal 2001 and 2002, due to lower expected returns and an anemic initial public offering market. The Real Estate Fund underperformed its benchmark by 383 basis points with a return of 3.3% versus the benchmark return of 7.1%. Because these investment classes are illiquid and highly structured, short-term performance is not always indicative of long-term expectations from the asset class, with the ultimate returns evident only upon realization of all investment gains.

While volatility in investment returns is expected in the short-term, the Treasurer's long-term performance with respect to managing the Pension and Trust assets is most important. The CRPTF generated compounded net annual total returns of -2.60%, 2.93%, and 8.06% over the last three-, five-, and ten-year periods, respectively. The Funds continued to be well diversified given the long-term risk/return objectives, while adhering to established investment guidelines.

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% S&P 500 Index; and 1% MFR First Tier Rated Index. The International Stock Fund benchmark is comprised of 83% Citigroup Europe, Pacific, Asia Composite Broad Market Index, 50% Hedged and 17% MSCI Emerging Market Free. 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.

### **2003 Division Performance and Management Initiatives**

In accordance with Public Act 00-43, the Treasurer is required to adopt, and the IAC approve, an Investment Policy statement for the State of Connecticut Retirement Plans and Trust Funds. During fiscal year 2002 the Treasury completed the CRPTF's first comprehensive Investment Policy Statement (IPS) as a result of the Treasury Reform Law. The IPS sets forth the policies and procedures which govern the structuring and investing of the pension and Trust Funds. State statute prescribes the required elements of the IPS, but the IPS extends beyond what is required by State statutes in its level of detail. The IPS represents the asset allocation plan for CRPTF; describes the level of risk that the CRPTF is willing to take in its investment strategy; describes the asset classes that the CRPTF is authorized to invest in, as well as aspects of the individual asset classes and the ranges within each asset class; and describes each of the plans and trusts that the Treasurer's Office manages on behalf of the CRPTF's participants and beneficiaries.

Copies of the Connecticut pension fund's Investment Policy Statement are available for review and downloading at the State Treasurer's web site: <http://www.state.ct.us/off>.

During the fiscal year the Office of the Treasurer selected and entered into contract negotiations with 11 advisors for the International Stock Fund. In addition, the division is in the process of completing contract negotiations with two advisors for the currency overlay mandate, after the IAC reviewed and endorsed those managers.

In January 2003, the IAC approved the Treasurer's adopted guidelines for the Mutual Fixed Income Fund ("MFIF"). Subsequently, RFP's were issued for the MFIF for Emerging Market Debt and Inflation-Linked Bond mandates, and the review of responses to those RFP's is underway. Additionally, the IAC has reviewed and commented on the Treasurer's proposed changes to the Real Estate guidelines of the Investment Policy Statement.

The Treasurer also initiated a required review by all fund managers of investments held in companies doing business in countries that have been designated by the U.S. Department of State as sponsoring terrorist activities.

### **Proxy Voting**

During 1999 and 2000, the Treasury developed comprehensive proxy voting policies for both domestic and global proxy voting. These policies were endorsed by the state's Investment Advisory Council (IAC), and now serve as the policy framework for shareholder decisions. As required by the Treasury Reform legislation enacted in 2000 the Proxy Voting Policies have been incorporated into the Investment Policy Statement. Connecticut law requires the Treasurer to consider the economic, social, and environmental impact of investment decisions. In addition, state law prohibits investment in companies doing business in Northern Ireland that have not implemented the MacBride Principles of fair employment. Similar statutory prohibitions exist for investing in companies conducting business with Iran counter to U.S. foreign policy.

The corporate governance program launched in fiscal year 2000, marked Connecticut's re-emergence - for the first time in five years - as an active, responsible institutional investor, with the most comprehensive series of proxy voting policies in the state's history.

Connecticut's shareholder activities includes both exercising proxy voting responsibility and taking steps such as filing shareholder resolutions and supporting resolutions filed by other shareholders.

Companies were identified based on below par total shareholder return (over a 3 year period) and identification of generally acknowledged weak policies or activities in specific areas of corporate governance.

The shareholder program during 2003 included a number of critical areas:

*Independence of the Board of Directors:* The state pension fund's proxy voting policies call for a majority of the board to consist of independent directors and key board committees such as the audit, compensation and nominating committees to consist completely of outside, independent directors. In 2002 this policy was adopted by the New York Stock Exchange as recommended listing standards for companies whose stock trades on the NYSE.

*Electing Board Members:* The policies support annual election of all members of the board of directors.

*Executive Compensation:* The policies support compensating executives at a reasonable rate and that executive compensation should be tied to performance.

*Global Working Conditions:* The policies support vendor and supplier compliance with international labor standards and core human rights.

*Board Diversity:* The proxy voting policies support board diversity as a key factor in deciding whether to support the election of board members. Board diversity ensures that members who serve on boards are drawn from the broadest pool of talent and expertise.

*Environment:* The policies support protecting the environment while helping improve the long-term financial performance of a company, particularly limiting greenhouse gas emissions.

*Shareholder Rights:* The policies support shareholder access to management's proxy card for shareholders to nominate candidates for election to the Board of Directors. The Policies also support mandatory board of director response to shareholder votes that received the support of a majority of shares voting, and creation of mechanisms to enhance direct communication between shareholders and independent directors.

*Offshore Reincorporation:* The policies oppose a company moving its country of incorporation to a off shore tax haven when that move would reduce the rights of shareholders under corporate law.

Among the program's noteworthy successes during the year included issues such as executive compensation, expensing of stock options, board member diversity, methods for election of board members, reincorporation from off shore tax havens to the U.S, communication between shareholders and independent directors, and corporate environmental policies. CRPTF filed and co-filed a total of 20 shareholder resolutions this proxy season on critical corporate governance issues, of those 8 were withdrawn due to settlements with the company, two were omitted by the SEC for technical reasons, and 10 were considered by shareholders of major corporations. Two resolutions received a majority of shareholder votes – both of which called for the company to elect all directors annually. One of these companies has subsequently agreed to elect all of its directors annually.

As principal fiduciary of the fund, Treasurer Nappier approaches shareholder ownership as a prudent long-term investor. Through shareholder advocacy, the pension fund seeks to ensure that companies in which the pension fund invests adopt corporate governance reforms and corporate citizenship practices consistent with the fund's proxy voting guidelines and in accordance with Connecticut law. Corporate governance activity under Treasurer Nappier also includes providing input to regulatory agencies on policy matters related to corporate governance and meetings with leading Connecticut companies that are important to the vitality of state's economy and in which the state pension fund is a shareholder.

Copies of the Connecticut pension fund's proxy voting policies and a report of proxy votes cast are available for review and downloading at the State Treasurer's web site: <http://www.state.ct.us/ott/proxyvoting.htm>

## **Asset Recovery and Loss Prevention**

At the direction of Treasurer Nappier, the Office of the Treasurer continues its aggressive approach to recovery of assets and loss prevention as a result of malfeasance, unethical actions and other factors. The activities for the Fiscal Year ended June 30, 2003 included renegotiation of contract terms, negotiated settlement of fee disputes, elimination of contract ambiguities, development of best practice contract terms, enhancement of the proof of claim filing process, application to serve as lead plaintiff in class action litigation, encouragement of other institutional investor lead plaintiffs to aggressively negotiate reasonable legal fees and consideration of filing lawsuits.

### ***Class Action Securities Litigation***

The Office of the Treasurer continues its close monitoring of opportunities to recover lost assets through active participation in class action litigation. The Office has implemented a new practice of review and monitoring of all class action cases filed. Notices are received via electronic mail of each case that is filed. The same vendor providing this service also furnishes information with respect to settlements, judgments, and other actions with respect to such litigation. The service assures the Office that we are participating in every case where assets have been lost.

The Office is actively participating as lead plaintiff in a national class action lawsuit alleging misconduct against JDS Uniphase. In November 2001, the Treasurer announced a \$457 million settlement agreement between the parties in the Waste Management matter, for which Connecticut had previously been designated lead plaintiff. In February 2003, the Treasurer announced a \$35 million settlement between the parties in the Campbell Soup Company matter. The Treasurer served as co-lead plaintiff in the case against Campbell Soup.

Believing that institutional investors are best equipped to manage and obtain the best results from class action securities litigation, Treasurer Nappier and her staff continue to participate in a number of forums to encourage the active participation of other institutional investors as lead plaintiffs in such litigation.

### ***Other Litigation***

In February 2002, the Office of the Treasurer filed a civil action in Connecticut State Court against the private equity firm Forstmann Little and its partners, alleging breach of contract and breach of fiduciary duty. In September 2002, counsel filed an amended complaint expanding the list of defendants in the case against Forstmann Little. The Office continues its vigorous prosecution of this matter. The case is scheduled for trial in May 2004. This case is being watched nationally as potentially groundbreaking with regard to the responsibility of general partners to limited partners in the private equity sector.

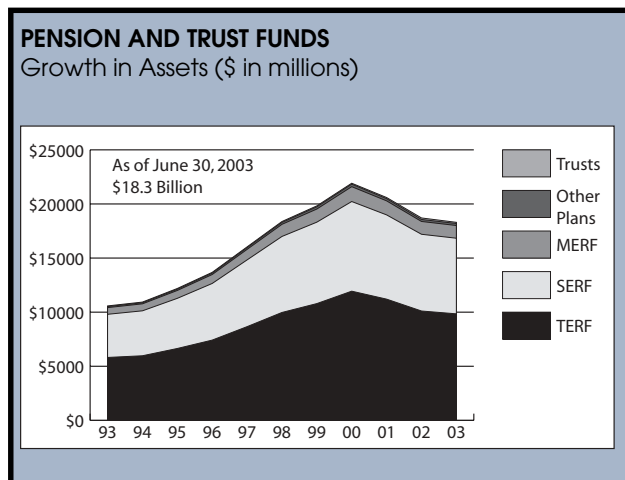
CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS

**Combined Investment Funds Total Return Analysis (%)**

Asset Class (% of Total Fund at 6/30/03)	Fiscal Years Ending June 30,					Annualized		
	2003	2002	2001	2000	1999	3 Years	5 Years	10 Years
<b>Total Fund (100.0%)</b>								
<b>Combined Investment Funds</b>	<b>2.49%</b>	<b>(6.39)%</b>	<b>(3.68)%</b>	<b>13.13%</b>	<b>10.49%</b>	<b>(2.60)%</b>	<b>2.93%</b>	<b>8.06%</b>
Connecticut Multiple Market Index (Without Objective)	3.88	(9.60)	(8.37)	10.31	13.60	(4.89)	1.52	N/A
Connecticut Multiple Market Index (With Objective)	5.26	(8.39)	(7.14)	11.95	14.22	(3.62)	2.74	N/A
<b>U.S. Stocks (36.1%)</b>								
Mutual Equity Fund (36.1%)	0.48	(14.95)	(9.55)	10.03	19.38	(8.22)	0.31	10.10
Russell 3000 Index	0.77	(17.24)	(13.93)	9.60	20.10	(10.47)	(1.13)	9.71
<b>International Stocks (11.1%)</b>								
International Stock Fund (11.1%)	(6.39)	(9.00)	(13.29)	20.13	6.77	(9.61)	(1.08)	4.48
International Stock Fund Hybrid Benchmark	(6.62)	(10.88)	(19.80)	20.77	7.62	(12.61)	(2.81)	3.42
<b>Equity Commercial Real Estate (2.3%)</b>								
Real Estate Fund (2.3%)	3.30	0.81	14.45	9.18	9.96	5.99	7.41	6.47
Russell NCREIF(1 Qtr. Lag)	7.13	6.40	11.88	11.10	14.32	8.55	10.24	9.38
<b>U.S. Fixed Income (36.5%)</b>								
Mutual Fixed Income Fund (36.1%)	12.03	5.64	8.03	5.77	2.64	8.54	6.78	7.34
Fixed Income Fund Hybrid Benchmark	15.53	5.04	9.26	5.66	3.13	9.86	7.64	7.26
Commercial Mortgage Fund (0.4%)	20.62	1.19	10.88	8.26	6.10	10.61	9.22	9.14
Lehman Aggregate Bond Index	10.41	8.63	11.23	4.56	3.13	10.08	7.54	7.21
<b>Alternative Assets (10.1%)</b>								
Private Investment Fund (10.1%)	(11.94)	(10.81)	(6.25)	53.86	(0.81)	(9.70)	2.36	10.10
S & P 500	0.26	(17.99)	(14.83)	7.24	22.76	(11.20)	(1.61)	10.04
Venture Economics All Private Equity (1 Qtr. Lag)	(14.67)	(14.45)	(7.41)	90.37	15.58	(12.24)	8.26	16.68
<b>Cash (3.9%)</b>								
Cash Reserve Account (3.9%)	1.80	3.03	6.35	5.96	5.46	3.71	4.51	4.95
MFR Rated Index	1.21	2.22	5.74	5.58	5.03	3.04	3.94	4.43

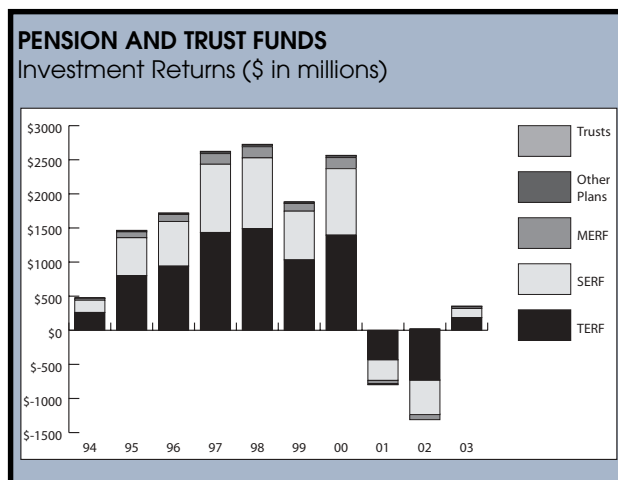
## CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS

Figure 1-1



TERF - Teachers' Retirement Fund  
SERF - State Employees Retirement Fund  
MERF - Connecticut Municipal Employees' Retirement Fund

Figure 1-2



TERF - Teachers' Retirement Fund  
SERF - State Employees Retirement Fund  
MERF - Connecticut Municipal Employees' Retirement Fund

Figure 1-3

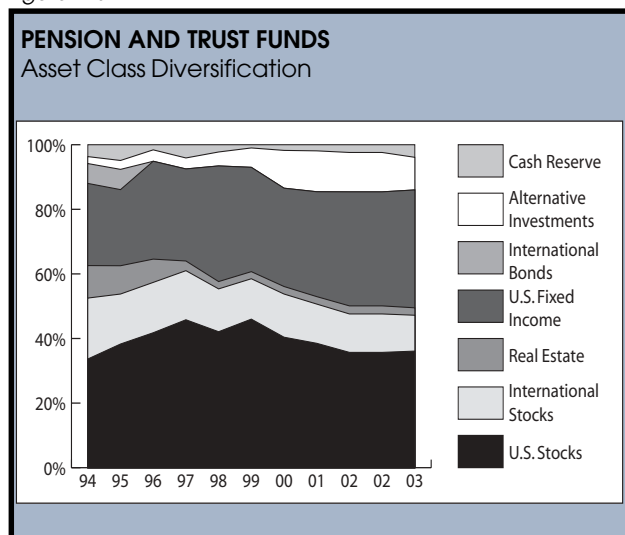
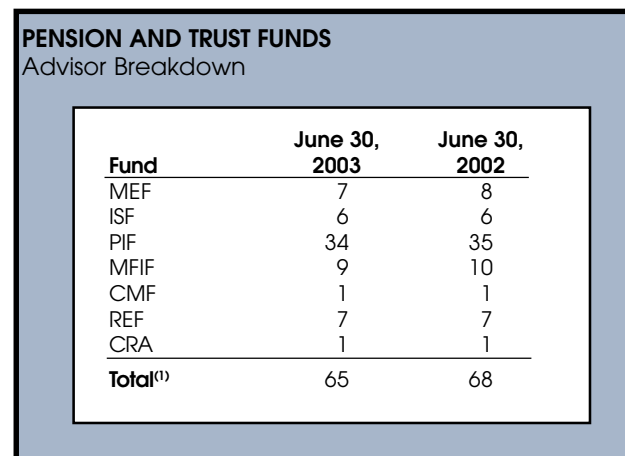


Figure 1-5



(1) Actual total advisors was 61 and 64, respectively when factoring in advisors across multiple funds.

Figure 1-4

**PENSION AND TRUST FUNDS ASSET ALLOCATION**  
Actual vs. Policy at June 30, 2003

	Actual	Target Policy	Lower Range	Upper Range
<b>U.S. EQUITY</b>	<b>36.1%</b>	<b>36.0%</b>	<b>29.0%</b>	<b>43.0%</b>
Mutual Equity Fund (MEF)	36.1%			
<b>INTERNATIONAL EQUITY</b>	<b>11.1%</b>	<b>18.0%</b>	<b>14.0%</b>	<b>22.0%</b>
International Stock Fund (ISF)	11.1%			
<b>EQUITY COMMERCIAL REAL ESTATE</b>	<b>2.3%</b>	<b>5.0%</b>	<b>4.0%</b>	<b>6.0%</b>
Real Estate Fund (REF)	2.3%			
<b>U.S. FIXED INCOME</b>	<b>40.4%</b>	<b>30.0%</b>	<b>26.0%</b>	<b>34.0%</b>
Mutual Fixed Income Fund (MFIF)	36.1%			
Commercial Mortgage Fund (CMF)	0.4%			
Cash Reserve Account (CRA)	3.9%			
<b>ALTERNATIVE INVESTMENTS</b>	<b>10.1%</b>	<b>11.0%</b>	<b>6.0%</b>	<b>11.0%</b>
Venture Capital Fund (VCF)	10.1%			
<b>TOTAL</b>	<b>100.0%</b>			

(1) MFIF's advisors are allowed to invest in non U.S. fixed income assets on an opportunistic basis.

Figure 1-6

**PENSION AND TRUST FUNDS**  
Periods ending June 30, 2003

	1 YR	3 YRS	5 YRS	10 YRS
Compounded, Annual Total Return (%)				
<b>CRPTF</b>	<b>2.49</b>	<b>-2.60</b>	<b>2.93</b>	<b>8.06</b>
CRPTF CMMI (Without Objective) Benchmark	3.88	-4.89	1.52	N/A
CRPTF CMMI (With Objective) Benchmark	5.26	-3.62	2.74	N/A
Cumulative Total Return (%)				
<b>CRPTF</b>	<b>2.49</b>	<b>-7.59</b>	<b>15.51</b>	<b>117.00</b>
CRPTF CMMI (Without Objective) Benchmark	3.88	-13.96	7.82	N/A
CRPTF CMMI (With Objective) Benchmark	5.26	-10.45	14.51	N/A

CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS

Figure 1-7

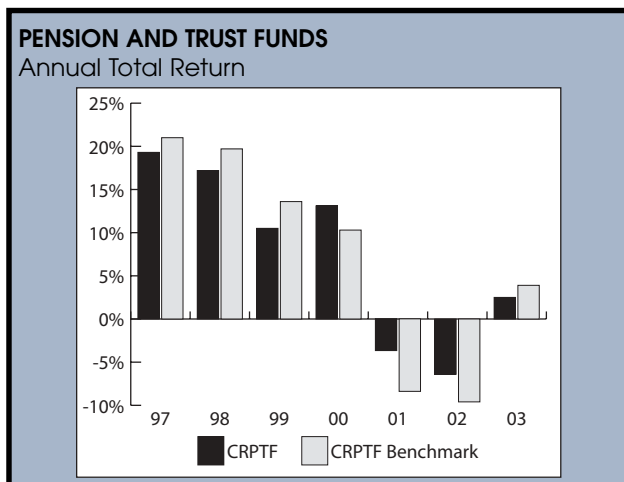


Figure 1-8

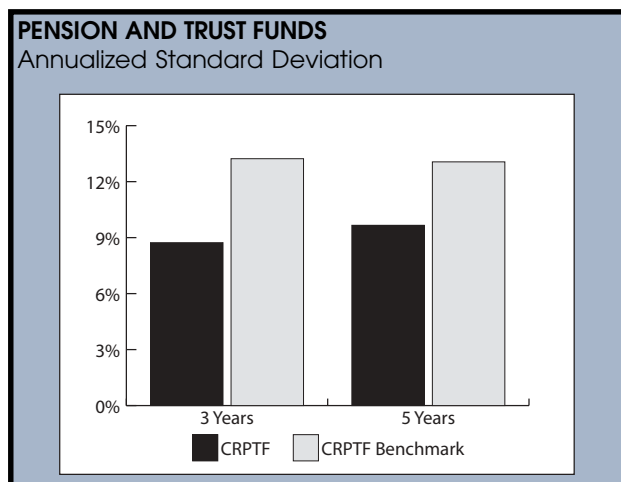


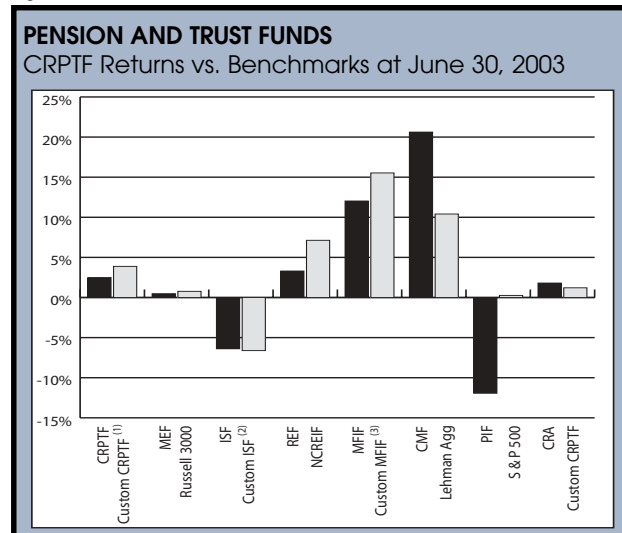
Figure 1-9

**PENSION AND TRUST FUNDS**  
TUCS Ranking for Periods ending June 30, 2003

	1 YR	3 YRS	5 YRS	10 YRS
<i>Public Funds &gt;\$1 Billion</i>				
<i>Percentile Return</i>				
5th	8.90	4.18	4.79	9.47
25th	4.78	-1.10	3.54	8.73
50th	4.02	-2.38	2.71	8.30
75th	3.23	-3.76	2.16	7.88
95th	2.34	-4.51	1.32	6.87
<i>CT Pension and Trust Funds</i>				
Return <sup>1</sup>	2.56	-2.44	3.12	8.31
Public Funds Ranking	91	50	37	47
Total Master Trusts Ranking	74	52	44	69

Source: State Street Bank  
(1) Gross Return

Figure 1-10



- (1) Total Fund Benchmark: Inception through 9/30/99: 40% Russell 3000, 15% MSCI EAFE Net, 28% LB Aggregate, 11% Russell 3000 Private Equity Fund, 4% NCREIF Property Index, 2% IBC Rated Index. 10/1/99 to date: 36% Russell 3000, 18% Int'l Stock Benchmark, 29% Mutual Fixed Income Benchmark, 5% Russell 3000 Real Estate Fund, 11% Russell 3000 Private Equity Fund, 1% IBC Rated Index.
- (2) International Stock Fund Benchmark: 83% CG EPAC BMI 50% Hedged and 17% MSCI Emerging Market Free.
- (3) Mutual Fixed Income Benchmark: 73% LB Aggregate, 17% Citigroup High Yield Market Index and 10% J.P. Morgan Emerging Markets Bond Index.

# 2003 cash reserve account

## Fund Facts at June 30, 2003

**Investment Strategy/Goals:** To serve as a cash management tool for the pension and trust funds by investing in high quality, liquid money market securities.

**Performance Objective:** An annual total return in excess of the index.

**Benchmark:** MFR Index

**Date of Inception:** September 1, 1987

**Total Net Assets:** \$1,852,825,784

**Number of Advisors:** 1 external

**Management Fees:** \$402,399

**Operating Expenses:** \$270,679

**Expense Ratio:** 0.04%

## Performance Summary

For the fiscal year ended June 30, 2003, the Cash Reserve Account (CRA) generated a return of 1.80% outperforming the benchmark Money Fund Report (MFR) Rated Index of 1.21% by 59 basis points. The Fund's return also outperformed the 90-day Treasury Bill return of 1.41% by 39 basis points.

For the trailing three, five and ten year periods, CRA's compounded annual total return were 3.71%, 4.51% and 4.95%, respectively, net of all expenses. The returns exceeded those of the MFR Index for all time periods by 67, 57 and 52 basis points respectively.

## Description of the Fund

The Cash Reserve Account (CRA) is a money-market pool investing in high-quality liquid money market securities. It serves as a cash management tool for the pension and trust funds and Combined Investment Funds, and is considered a separate asset class offering protection against inflation.

CRA uses the basic strategy of buying on market weakness. When interest rates rise, CRA takes advantage by investing at higher yields through an extension in average maturity for the fund. Conversely CRA increases exposure to floating rate securities that perform well in a declining rate environment. To ensure sufficient liquidity to fund unexpected plan withdrawals, CRA maintains an adequate amount of investments in extremely short assets. CRA continually analyzes expectations for future interest rate movements and changes in the shape of the yield curve to ensure the most prudent and effective short-term money management for its clients. Due to the short-term nature of CRA, it is considered to be low-risk. Consequently, returns realized by CRA may be lower than those realized by funds with fixed income investments maturing over a longer time horizon.

CRA's performance objective is to exceed the MFR First Tier Institutions Only Rated Money Fund Report Index, an average of rated institutional money market mutual funds that invest primarily in first-tier (securities rated A1, P1) taxable securities.

During the fiscal year, CRA assets under management rose \$410 million or 28% to \$1,853 billion on June 30, 2003 from 1,443 billion on June 30, 2002.

## Portfolio Characteristics & Strategy

The London InterBank Offered Rate (LIBOR) curve remained inverted to flat and yields continued to not offer much pick up across the curve during the period. There was a significant supply of new issue-asset backed securities during the last quarter. The CRA Fund took advantage of the positive carry floating rate securities versus fixed rate securities. The Fund continued to invest in the asset-backed securities, as this was an attractive sector. While the curve remained flat, the CRA Fund held up to 45% of the assets in adjustable rate asset-backed securities. As the market conditions change we will look for opportunities to extend. The Fund's



average maturity was 48 days at year-end June 30, 2003 compared to the IBC Index of 50 days. The distribution of investments by maturity at June 30, 2003 was as follows: Overnight (3%); 2-90 days (13%); over 90 days (84%). The Fund's three largest security weightings at fiscal year-end included adjustable and fixed rate asset-backed securities (45%); Floating Rate Corporate Notes (24%); and Commercial Paper (16%).

## Economic Review

The year essentially began with the Federal Reserve (Fed) voting on September 24, 2002, to keep rates unchanged and maintained its risk assessment as weighted towards weaker growth. In the accompanying statement, the Fed stated that its policy was to be accommodative and that productivity gains should improve the business climate. The Fed's statement also said that risks to the economy are weighted more toward weakness rather than strength; a stance the central bank adopted in its August 13, 2002 meeting and indicated that policy makers might decide to lower rates at some point. As the months progressed, economic data weakened. Unexpected declines in housing starts, higher than expected weekly jobless claims, negative earnings announcements, weak equity markets, and renewed terrorist activity drove yields lower. In October 2002, consumer confidence plunged to a nine-year low as job cuts and expectations of declining incomes undermined the economic recovery. The unemployment rate rose to 5.7 percent in October and the economy lost jobs for the second straight month, further supplying evidence that the economy was stalling. On November 6, 2002, the Federal Open Market Committee (FOMC) decided to lower the Fed Funds rate by 50 basis points to 1.25%. The move was accompanied by a shift to a neutral stance. The FOMC believed that the additional monetary easing should prove helpful as the economy works its way through this current soft spot. Fed Chairman Alan Greenspan stated that the economy is in a "soft patch" and recognized that consumer spending was slowing.

The following quarter began with the Iraq situation, President Bush's economic stimulus plan, and stock market activity. Consumer spending continued to weaken and the Fed's beige book (a report on current economic conditions, published by the Federal Reserve Board eight times each year) confirmed such. Alan Greenspan addressed the Senate indicating the Fed was on hold in the near term and the yield curve flattened. Greenspan's speech sent mixed messages, indicating he expected the economy to grow, but would cut rates if the economy faltered due to the Iraq situation. During February, data was mixed with strong housing sales, while consumer confidence continued lower. Economic momentum slowed as the concern about war, slow job market and volatile stock market held back consumer spending. March continued to be volatile as the concerns of war grew and the Fed chose to leave interest rates unchanged on March 18, 2003.

Retail sales fell 1% in April and the economy lost jobs for a third month. Durable good orders fell 2.4% in April showing a lack of confidence among businesses. Companies continued to be reluctant to spend as they sought signs that demands were accelerating. Personal spending in the U.S. fell again in April combined with higher unemployment limited consumer spending. At the May 6<sup>th</sup> FOMC meeting, the Fed left rates unchanged at 1.25%. In their statement the Fed said that "together with accommodative monetary policy and ongoing productivity gains, this will lead to an improving economy." The Fed, however, did raise the issue of potential deflation. The June beige book continued to portray a soft economy in April and May. Conditions were characterized as "sluggish", manufacturing as "mixed" and consumer spending as "lack-luster".

The depressed labor market and no growth in capital spending dampened the Fed's optimism going into June. Fearing the risk of deflation more than inflation, the Fed lowered Fed Funds rates by 25 basis points, at the June 25<sup>th</sup> meeting, to 1.00%. Many market participants were disappointed as many had expected 50 basis points. The Fed continues to believe that recovery is eminent, as productivity seems to be climbing, and recently passed tax legislation will provide a lift to disposable incomes of households. Greenspan stated, "In the judgment of the Committee, policy accommodation aimed at raising the growth of output, boosting utilization of resources, and warding off unwelcome disinflation can be maintained for a consider-

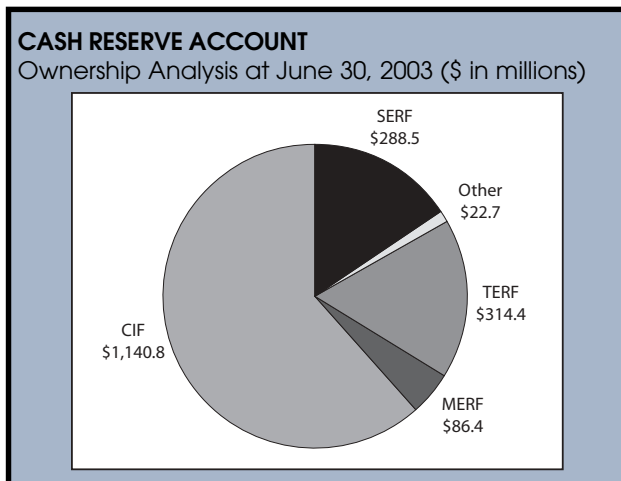
able period without ultimately stoking inflationary pressures." Data continues to be mixed as industrial production has stabilized, housing is strong, but global uncertainties and higher unemployment numbers are worrisome.

**Risk Profile**

Due to the short-term nature of CRA, it is generally considered to be low-risk. Consequently, returns realized by CRA may be significantly lower than those realized by funds with fixed income investments maturing over a longer time horizon. Similarly, the investments' short time horizon, along with the quality of the issuing entities, mitigates traditional concerns over interest rate, default and currency exchange risk.

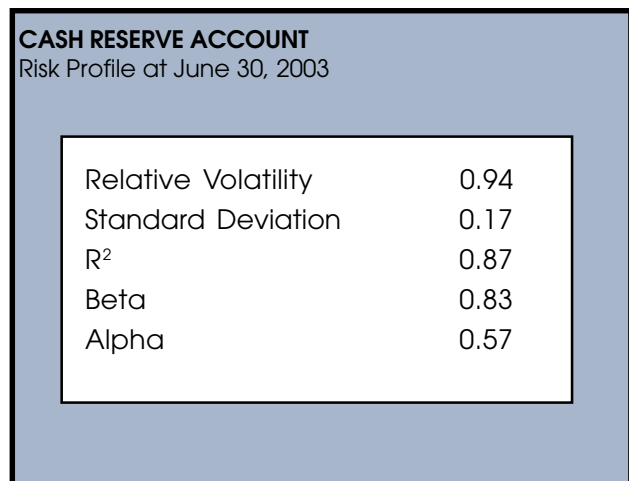
Based on returns over the last five years, the Fund exhibited a similar degree of risk relative to the MFR Index, as evidenced by its relative volatility of 0.94. Its standard deviation of .17 suggests comparatively low overall volatility, while its beta of .83 indicates a high overall correlation to returns achieved by the Index. In the aggregate, CRA achieved a positive annual alpha, or return in excess of that predicted by returns of its benchmark of 0.57.

Figure 2-1



TERF - Teachers' Retirement Fund  
SERF - State Employees Retirement Fund  
MERF - Connecticut Municipal Employees' Retirement Fund  
CIF - Combined Investment Funds

Figure 2-2



(1) Based upon returns over the last five years.

Figure 2-3

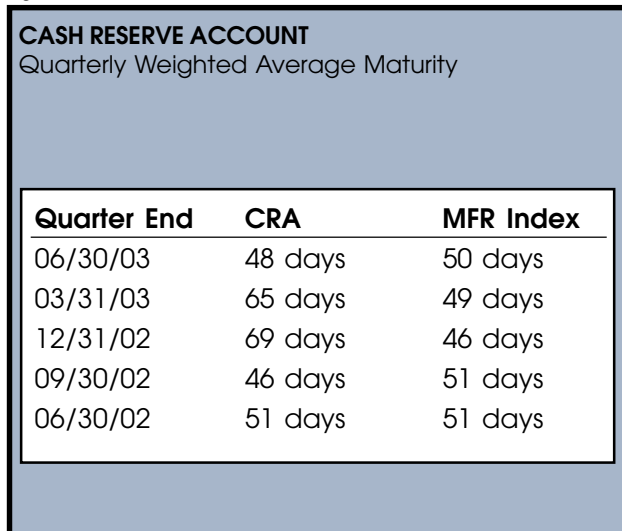
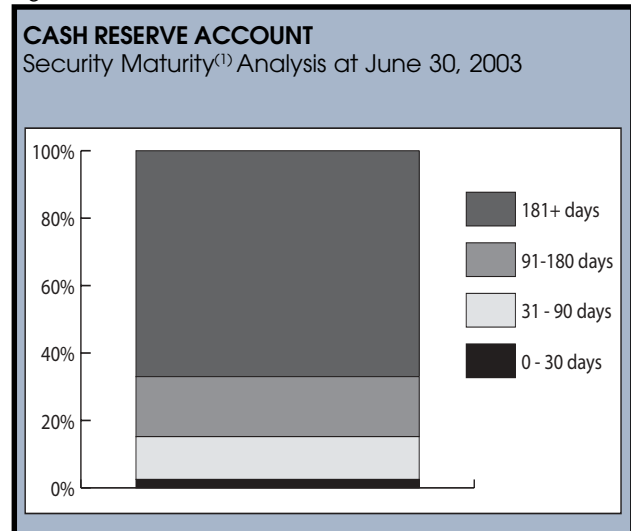


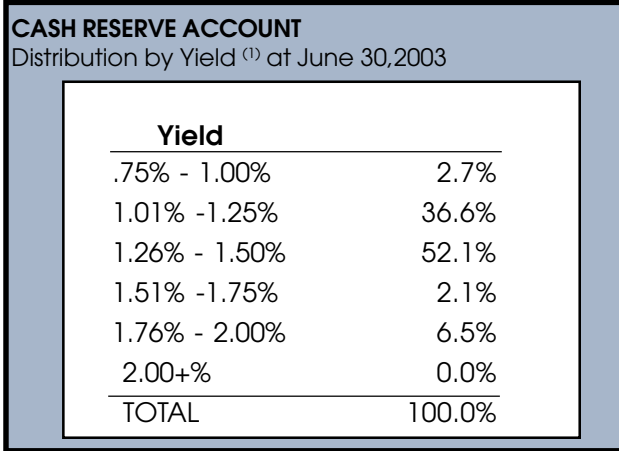
Figure 2-4



(1) Or Interest Rate Reset Period.

CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS

Figure 2-5



(1) Represents yield to maturity.

Figure 2-6

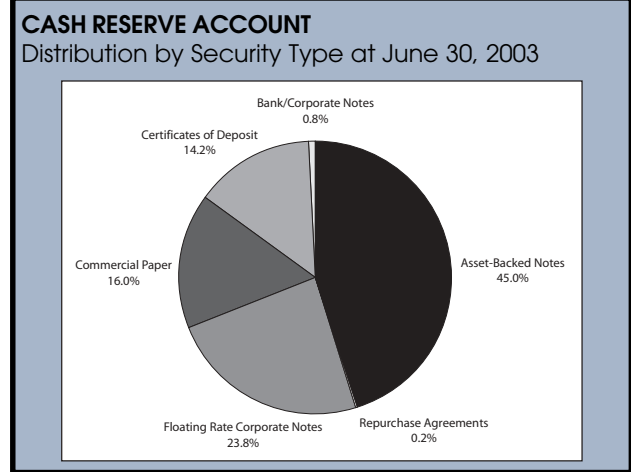
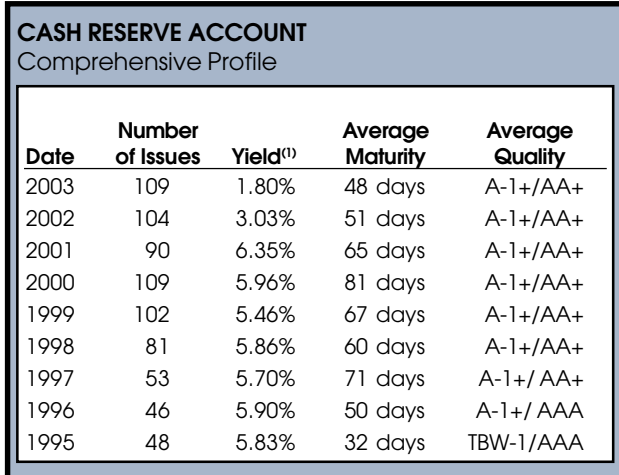
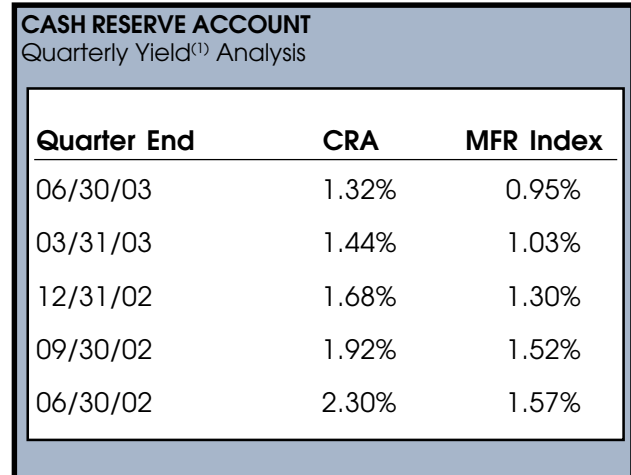


Figure 2-7



(1) Represents annual total return of the Fund for year ended June 30.

Figure 2-8



(1) An annualized historical yield based on the preceding month's level of income earned by the Fund.

Figure 2-9

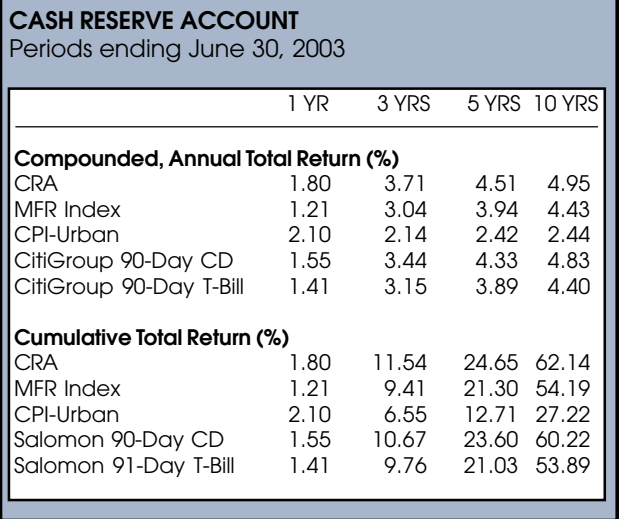
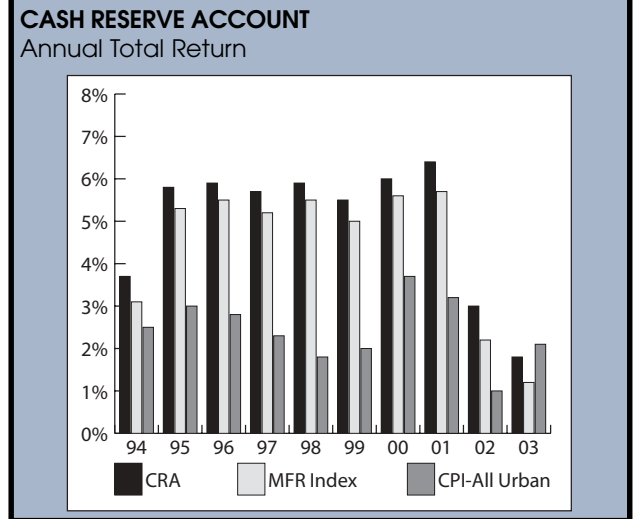


Figure 2-10



(1) Or Interest Rate Reset Period.

# 2003 mutual equity fund

## Fund Facts at June 30, 2003

**Investment Strategy/Goals:** To participate in the growth of the U. S. economy through the ownership of domestic equity securities.

**Performance Objective:** An annual total return which is one percentage point greater than that of the Russell 3000 after expenses.

**Benchmark:** Russell 3000 Index

**Date of Inception:** July 1, 1972

**Total Net Assets:** \$6,598,468,176

**Number of Advisors:** 7 external

**Management Fees:** \$13,885,595

**Operating Expenses:** \$1,166,750

**Expense Ratio:** 0.23%

**Turnover:** 54.8%

## Performance Summary

For the fiscal year ended June 30, 2003, the Mutual Equity Fund (MEF) generated a positive return of 0.48%, net of fees, which underperformed the Russell 3000 index benchmark return of 0.77% by 29 basis points. Industry allocation was the main reason for the underperformance, as overweights to Consumer Services and to the Basic Materials sectors detracted from return.

During this same period, MEF's net assets declined from \$6.676 billion to \$6.598 billion, a decrease of \$78 million due to \$89 million in net cash outflows to participating pension plans and trusts, partly offset by net investment income of \$11 million.

While volatility in investment returns is expected in the short-term, the Fund's long-term performance remains the most important comparative measure. As Figure 3-4 below illustrates, MEF has generated annualized total returns, net of all expenses, of -8.22%, 0.31%, and 10.10% over the last three, five, and ten-year periods, respectively. The Fund returns outperformed the Russell 3000 for the three, five, and ten-year periods by 225, 144, and 39 basis points, respectively.

The MEF's cumulative total returns for the three, five, and ten year periods ending June 30, 2003, were -22.7%, +1.5%, and +161.7%, respectively.

## Description of the Fund

The Mutual Equity Fund (MEF) is an externally managed fund investing in domestic equity securities. It serves as an investment vehicle for the Pension and Trust Funds with the goal of earning prudent returns while participating in the growth of the U.S. economy.

MEF's performance objective is an annual total return, net of management fees and Division operating expenses, which exceeds that of the Russell 3000 Index by 100 basis points per annum. The Russell 3000 Index is a broad stock market index of the securities from the largest 3,000 publicly traded U.S. companies.

At the close of the fiscal year, MEF consisted of seven externally managed equity portfolios structured to approximate the composition of the Russell 3000 Index. Three advisors actively managed approximately 14% of the portfolio in small to mid-capitalization stocks. Two advisors invested a total of 11% of the portfolio in small to mid-capitalization stocks using an enhanced indexing strategy. Two advisors in large capitalization stocks (of which 43% was invested using enhanced indexing strategies and 32% was invested using a passive strategy) managed the balance of the portfolio, or approximately 75%. At fiscal year end, approximately \$5.6 billion, or 86%, of the Fund's net assets were invested in indexed or enhanced index portfolios.

### Portfolio Characteristics

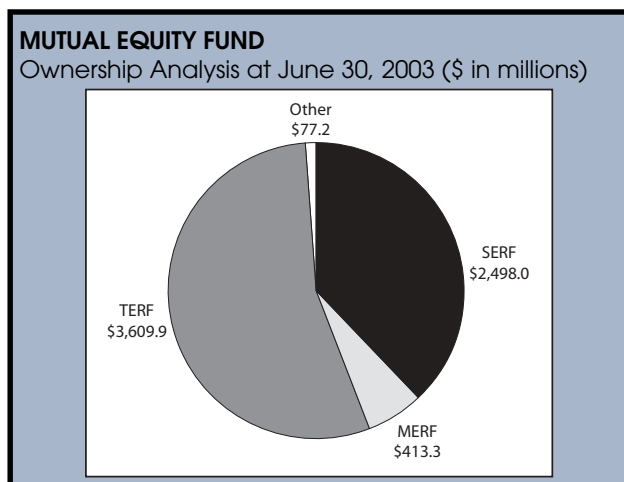
At fiscal year-end, MEF was 99.0% invested in domestic stocks, reflecting the Fund's policy that it be fully invested. The largest industry weighting at June 30, 2003 was financials (18.7%), followed by consumer discretionary (15.4%) and health care (14.7%). (See figure 3-3.)

The MEF's ten largest holdings, aggregating to 18.7% of Fund investments, included a variety of blue chip companies. (See figure 3-9.)

### Risk Profile

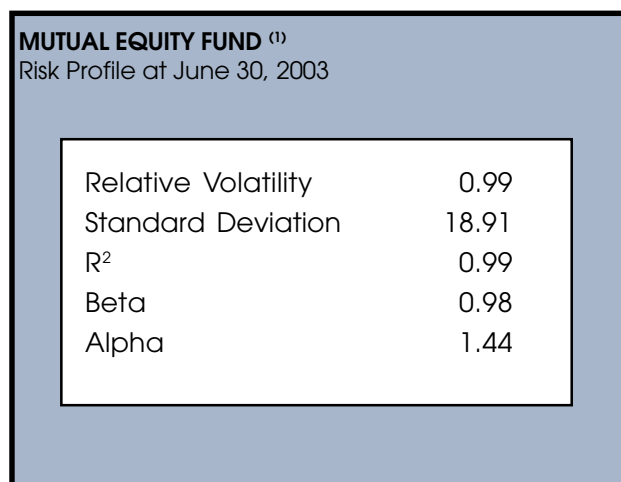
Based on returns over the last five years, the Fund has exhibited a similar degree of risk as that of its benchmark, the Russell 3000 Index. With a relative volatility of 0.99, the MEF's returns have almost equal volatility to those of the Index and reflect a strong degree of correlation, 0.99, to those of the Index. MEF's annual excess return during the five year period, or return relative to that achieved by the benchmark, was a positive 1.44%. (See figure 3-2)

Figure 3-1



TERF - Teachers' Retirement Fund  
 SERF - State Employees Retirement Fund  
 MEF - Connecticut Municipal Employees' Retirement Fund

Figure 3-2



(1) Based upon returns over the last five years.

Figure 3-3

At 6/30/2003:	MEF		Russel 3000	
	% of Net Assets	Annual Return	% of Net Assets	Annual Return
Energy	7.1	1.2	5.9	-5.4
Materials	4.1	-10.6	3.2	-10.5
Industrials	11.2	-1.6	11.5	-4.8
Consumer Discretionary	15.4	-3.1	13.7	-1.4
Consumer Staples	8.1	-5.2	8.7	-4.1
Health Care	14.7	9.4	14.2	8.7
Financials	18.7	3.4	21.6	1.5
Information Technology	14.2	5.1	14.1	6.5
Telecommunications	3.2	-2.7	3.8	4.1
Utilities	3.3	-1.4	3.3	-2.0
	100.0		100.0	

(1) Excludes the Cash Reserve Account.

Figure 3-4

	1 YR	3 YRS	5 YRS	10 YRS
Compounded, Annual Total Return (%)				
MEF	0.48	-8.22	0.31	10.10
Russell 3000	0.77	-10.47	-1.13	9.71
Cumulative Total Return (%)				
MEF	0.48	-22.70	1.54	161.71
Russell 3000	0.77	-28.23	-5.53	152.62

CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS

Figure 3-5

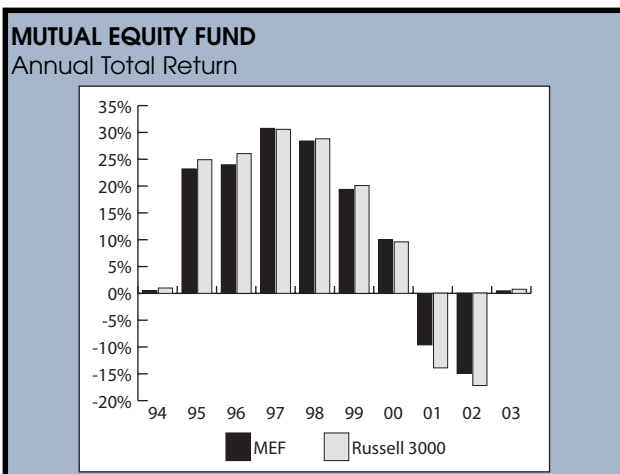


Figure 3-6

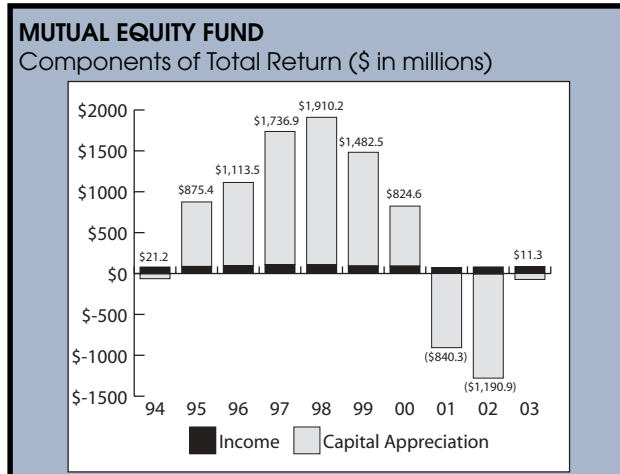


Figure 3-7

**MUTUAL EQUITY FUND**  
Comprehensive Profile for the Fiscal Years ending June 30,

	2003		2002		2001		2000		1999	
	MEF	Russell	MEF	Russell	MEF	Russell	MEF	Russell	MEF	Russell
# of Issues	2,119	3,000	2,274	3,000	2,333	3,000	2,325	3,000	2,370	3,000
Cap (\$ Bil)	\$65.1	\$71.7	\$66.8	\$70.2	\$87.7	\$94.9	\$118.2	\$121.3	\$85.4	\$86.6
P/E	23.2	23.9	29.3	30.4	24.1	26.3	26.8x	30.2x	31.4x	32.9x
Div Yield	1.50%	1.70%	1.50%	1.60%	1.20%	1.30%	1.10%	1.10%	1.20%	1.20%
ROE	16.0%	16.2%	15.5%	16.4%	20.0%	20.9%	19.4%	20.5%	20.2%	20.4%
P/B	3.9x	4.0x	4.2x	4.3x	5.3x	5.5x	9.8x	10.7x	7.5x	7.8x
Cash & Equiv.	1.1%	0.0%	1.2%	0.0%	1.3%	0.0%	0.9%	0.0%	1.1%	0.0%

Figure 3-8

**MUTUAL EQUITY FUND**  
Investment Advisors at June 30, 2003

Investment Advisor	Net Asset Value	% of Fund
<b>Large Cap (Enhanced/Risk Controlled)</b>	<b>\$4,948,286,441</b>	<b>74.99%</b>
BGI Barclays Global Investors, N.A.	2,834,136,432	42.95%
State Street Global Advisors	2,114,150,009	32.04%
<b>Small/Mid Cap (Enhanced/Risk Controlled)</b>	<b>\$704,392,859</b>	<b>10.68%</b>
AXA Rosenberg Investment Mgmt.	387,640,242	5.88%
SSB Citigroup (The Travelers)	316,752,617	4.80%
<b>Small/Mid Cap (Active Management)</b>	<b>\$926,669,028</b>	<b>14.04%</b>
TCW Cowen Asset Management	345,963,282	5.24%
Brown Capital Management, Inc.	299,604,813	4.54%
Thomas Weisel Asset Management	281,100,933	4.26%
<b>Other (1)</b>	<b>\$19,119,848</b>	<b>0.29%</b>

Figure 3-9

**MUTUAL EQUITY FUND**  
Ten Largest Holdings at June 30, 2003

Security Name	Sector	Market Value	%
General Electric	Technology	\$184,895,916	2.80%
Pfizer Inc	Health Care	176,901,201	2.68%
Microsoft	Technology	128,298,622	1.94%
Exxon Mobil Corp	Energy	125,360,876	1.90%
Wal Mart Stores Inc	Non-Durables	114,836,840	1.74%
CitiGroup Inc	Financial	107,395,986	1.63%
Merck & Co Inc	Health Care	103,365,995	1.57%
Intel Corp	Technology	102,608,218	1.55%
Bank America Co	Financial	94,694,141	1.43%
IBM	Technology	94,290,735	1.43%
<b>TOTAL</b>		<b>\$1,232,648,530</b>	<b>18.67%</b>

(1) Other represents funds earmarked for distribution to participants, reinvestment, and expenses.



# 2003 international stock fund

## Fund Facts at June 30, 2003

**Investment Strategy/Goals:** To participate in the growth of the global economy through the ownership of foreign equity securities.

**Performance Objective:** An annual total return which is one percentage point greater than the ISF Hybrid Benchmark after expenses.

**Benchmark:** ISF Hybrid Benchmark (83% Citigroup Europe, Pacific, Asia Composite Broad Market Index, 50% Hedged and 17% MSCI Emerging Market Free)

**Date of Inception:** January 1, 1988

**Total Net Assets:** \$2,034,092,519

**Number of Advisors:** 7 external

**Management Fees:** \$12,077,535

**Operating Expenses:** \$892,076

**Expense Ratio:** 0.61%

**Turnover:** 47.3%

## Performance Summary

For the fiscal year ended June 30, 2003, the International Stock Fund (ISF) generated a negative return of 6.39%, net of fees, but outperformed the hybrid benchmark index return of negative 6.62% by 23 basis points. Active management in both the developed and emerging markets had a positive impact on relative performance.

During fiscal year 2003, ISF net assets decreased from \$2.227 billion to \$2.034 billion, a decrease of \$193 million. This included realized and unrealized net capital losses of \$194 million and \$37 million due to net cash outflows to participating pension plans and trusts partly offset by net investment income of \$38 million.

The Fund has outperformed relative to its benchmark over the last three, five and ten year periods, as illustrated in Figure 4-4 below. The three and five-year results were above those of the index by 300 and 173 basis points, respectively. For the trailing ten-year period, ISF's annualized total return was above the hybrid index by 106 basis points.

## Description of the Fund

The International Stock Fund is an externally managed fund which invests in foreign equity securities. It serves as an investment tool for the Pension and Trust Funds, with the goal of participating in the growth of international economies. It is used to reduce short-term volatility in the Pension and Trust Funds returns by providing an additional layer of asset and currency diversification. In environments where the value of the U.S. dollar is declining relative to other currencies, international stocks are expected to enhance total Pension and Trust Funds returns.

Established in 1988, ISF's performance objective was an annual total return, net of management fees and Division operating expenses, which exceeds that of the Hybrid Benchmark, a measure of the returns of developed, non-U.S. stock markets, by 100 basis points. During the structure review in fiscal year 2000, the objective was changed to reflect the Fund's strategic exposure to emerging markets, as well as an exposure to stocks of smaller companies in the developed markets. The new objective is for the return of the Fund (net of fees) to exceed the return of a hybrid index comprising 83% of the Citigroup Europe Pacific Asia Composite Broad Market Index (50% Hedged) and 17% of the Morgan Stanley Capital International Emerging Market Free Index (MSCI EMF) by 100 basis points.

At the end of fiscal year 2003, the Fund had seven external advisors, selected on the basis of expected future performance and investment style, although one advisor managed both an emerging market and a core portfolio. (See figure 4-8.) Based on the Fund's holdings, as of June 30, 2003, approximately 60% of the portfolio was managed by four advisors in countries comprising the MSCI EAFE, 17% was actively managed by two advisors within the emerging markets, and 22% was allocated to one advisor for passive management against the European portion of the MSCI EAFE Index.

The Office of the Treasurer issued a Request For Proposal (RFP) for Fund managers, as part of its continuing implementation of the Asset Allocation policy and strategy for the International Stock Fund. This resulted in a new strategic allocation to international equities that created a more diversified portfolio and will allow for more opportunities to enhance stock portfolio returns while reducing risk. Going forward the international portfolio will consist of seven investment mandates where previously there were three mandates. The seven mandates are; Passive large-Cap EAFE, Active Small-Cap EAFE, Active Risk Controlled EAFE, Active Core EAFE, Active Specialist EAFE, Active Emerging Markets, and Currency Overlay. Over fifty advisors were interviewed for five of the seven Fund mandates established during the structure review process completed at the end of fiscal 2000. In May 2002, Treasurer Nappier, with the endorsement of the Investment Advisory Council, selected twelve managers. The increase in the number of managers is being driven by the increased allocation of approximately \$1 billion to the ISF portfolio, which is consistent with the CRPTF's asset allocation policy. Contract and fee negotiations, including manager implementation, will occur during fiscal 2004. The Office of the Treasurer has appointed two advisors for the Currency Overlay mandate. Implementation of their strategies will take place in fiscal year 2004.

### **Portfolio Composition**

At fiscal year-end, ISF was 97.2% invested in international securities. Investments in United Kingdom equity securities were the largest percentage of Fund assets, at 15.1%. Japan accounted for 13.5% and German securities, 10.5% of investments. The Fund's allocation to non-EAFE countries, including the emerging markets, stood at 17.6% of investment in securities at the end of fiscal year 2003. These geographic concentrations differed from those comprising the Hybrid index, reflecting the Fund's allocation to active management strategies. (See figure 4-7.)

The ISF was well diversified at year-end, holding more than 2,083 securities in the portfolio. The ISF's ten largest holdings, not including cash, included a variety of companies located throughout Europe and the Far East. The Fund's largest investment, comprising 1.7% of investment securities, was Total SA EUR 10 Serie B of France. (See figure 4-9.)

In the aggregate, these ten holdings accounted for 11.4% of the Fund's investments at June 30, 2003.

### **Risk Profile**

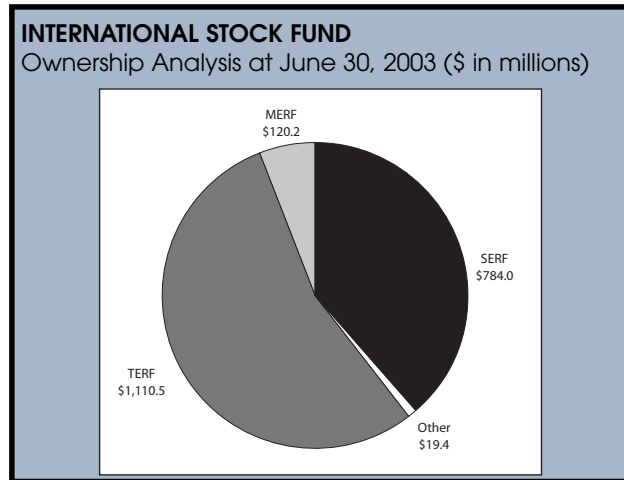
Given ISF's investment policies and objectives, the Fund is exposed to several forms of risk. These include, but are not limited to, political and economic risk, currency exchange risk, market risk, and individual company credit risk. In order to reduce some of the potential short-term volatility due to currency movements as well as reduce the risk associated with international investments, the Treasurer determined that a 50% hedge ratio would provide the greatest reduction in portfolio risk over time. The Treasurer also decided to implement the currency hedging strategy by hiring two dedicated currency overlay managers, who would ensure that the Fund's foreign currency exposure is always at least 50% hedged. The outstanding RFP includes this currency mandate, and once all of the new managers are in place, hedging will not be part of any of the equity managers' mandates.

Based on returns over the last five years, the Fund's risk profile is similar to that of the Hybrid benchmark. The Fund's relative volatility over the five-year period ending June 30, 2003 has been 1.04, while its high  $R^2$  of 0.93 demonstrates a relatively strong overall correlation. In the aggregate, ISF's annualized excess return over the five-year period, or return in excess of that predicted by the benchmark, was 1.74%. (See Figure 4-2.)



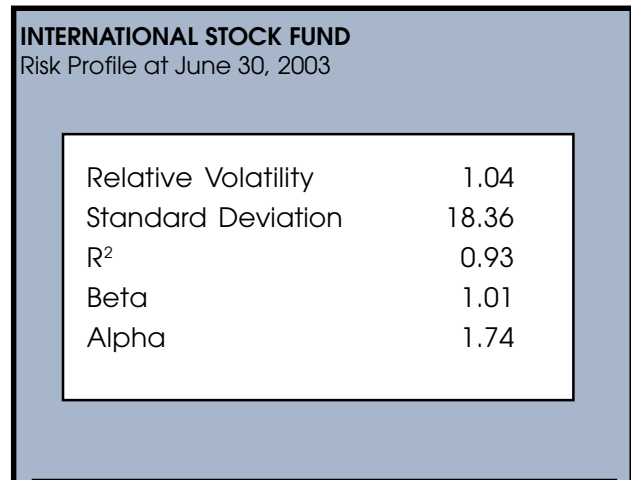
CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS

Figure 4-1



TERF - Teachers' Retirement Fund  
SERF - State Employees Retirement Fund  
MERF - Connecticut Municipal Employees' Retirement Fund

Figure 4-2



(1) Based upon returns over the last five years.

Figure 4-3

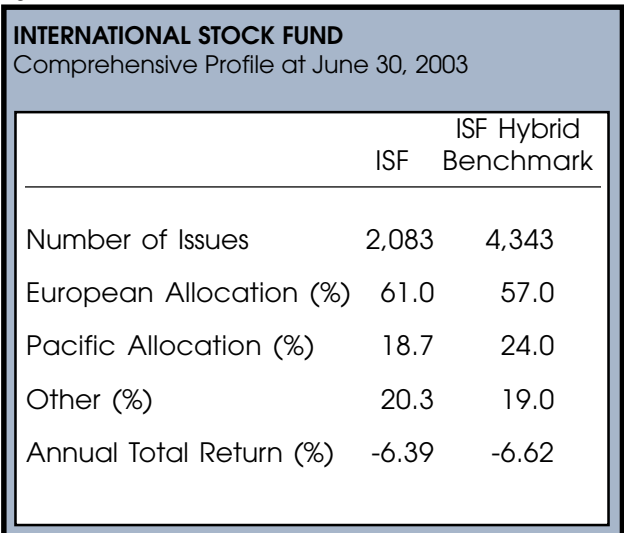


Figure 4-4

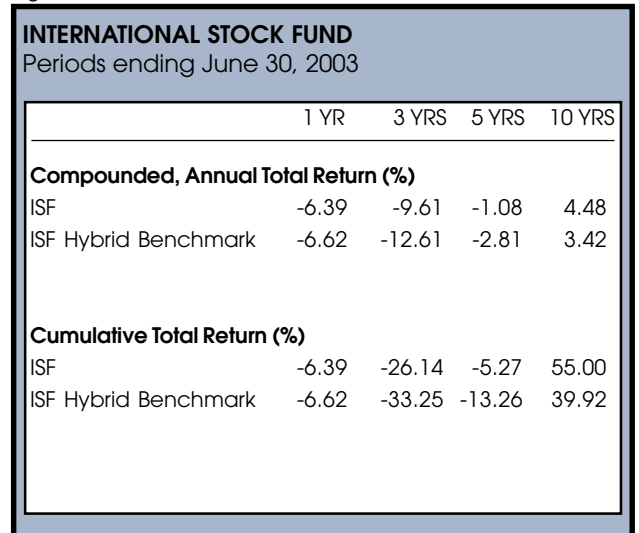


Figure 4-5

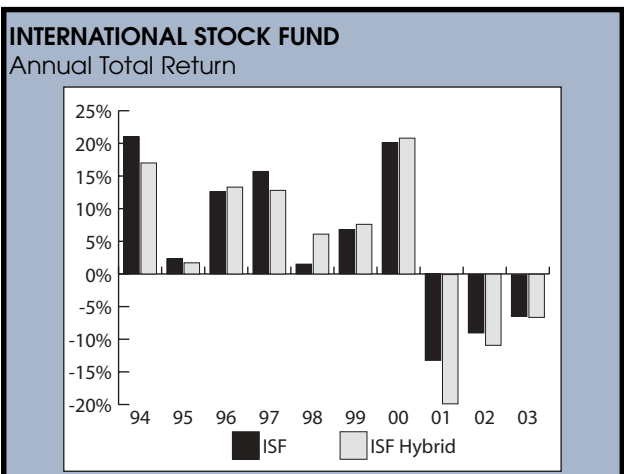
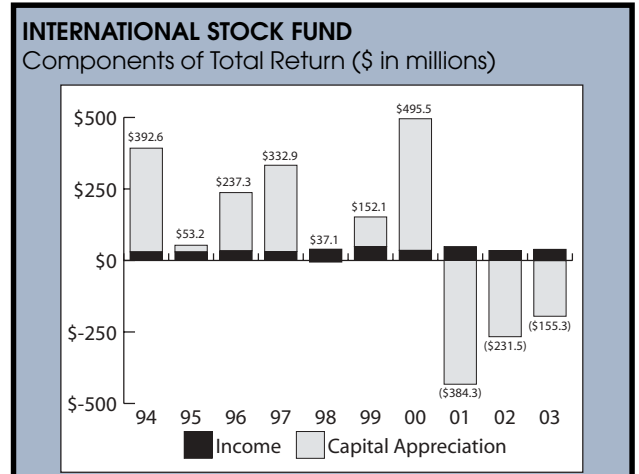


Figure 4-6



CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS

Figure 4-7

<b>INTERNATIONAL STOCK FUND</b>						
Diversification by Benchmark Country with Return (%) at June 30, 2003 <sup>(1)</sup>						
	ISF			ISF Hybrid Benchmark		
	% of Net Assets 6/30/02	% of Net Assets 6/30/03	Total Return	% of Net Assets 6/30/02	% of Net Assets 6/30/03	Total Return
Japan	15.3	13.5	-8.8	17.6	17.5	-12.2
United Kingdom	14.4	15.1	-9.3	21.4	21.4	-1.7
Germany	10.9	10.5	-8.1	5.7	5.3	-11.4
France	8.7	8.4	-5.8	7.7	7.5	-5.4
Italy	6.3	5.9	9.0	3.2	3.4	7.6
Switzerland	3.9	4.8	-12.6	6.2	6.0	-8.7
Netherlands	4.2	3.5	-17.5	4.7	3.9	-17.8
Spain	3.5	3.9	19.4	2.5	3.1	18.9
Hong Kong	3.6	1.9	-16.0	1.7	1.6	-7.6
Sweden	1.8	1.4	-12.3	1.6	1.8	2.0
Australia	1.6	1.4	-4.5	3.3	4.0	17.6
Finland	1.1	1.4	9.1	1.3	1.5	8.5
Belgium	1.5	1.4	-4.7	1.1	1.0	-7.7
Singapore	1.1	1.3	-0.9	0.7	0.8	0.4
Denmark	0.8	0.8	-8.7	0.6	0.7	8.7
Ireland	0.8	0.8	-0.9	0.7	0.6	7.5
Norway	1.8	1.8	-6.5	0.4	0.3	-6.3
Malaysia	0.6	0.5	0.5	0.9	0.9	-0.4
Austria	0.7	0.9	24.8	0.1	0.2	25.4
New Zealand	0.7	0.6	26.1	0.1	0.1	38.5
Portugal	0.5	0.4	0.5	0.3	0.3	0.4
Other	16.2	19.8		18.2	18.1	
<b>Total</b>	<b>100.0</b>	<b>100.0</b>		<b>100.0</b>	<b>100.0</b>	

(1) Includes Cash Reserve Account and cash equivalents at each country level.

Figure 4-8

<b>INTERNATIONAL STOCK FUND</b>		
Investment Advisors at June 30, 2003		
Investment Advisor	Net Asset Value	% of Fund
<b>EAFE - Europe</b>	<b>\$ 451,327,190</b>	<b>22.19%</b>
<b>Enhanced Passive</b>		
State Street Global Advisors	451,327,190	22.19%
<b>Core Management</b>	<b>\$1,229,005,357</b>	<b>60.42%</b>
<b>Active</b>		
Grantham, Mayo, Van Otterloo & Co.	508,094,277	24.98%
Morgan Stanley Asset Management	474,015,628	23.30%
DSI International Management	123,665,001	6.08%
Smith Barney Capital Management	123,230,451	6.06%
<b>Emerging</b>	<b>\$ 349,272,313</b>	<b>17.17%</b>
<b>Active</b>		
Morgan Stanley Asset Management	198,388,606	9.75%
Pictet International Management	150,883,707	7.42%
<b>Other <sup>(1)</sup></b>	<b>\$ 4,487,659</b>	<b>0.22%</b>

(1) Other represents funds earmarked for distribution to participants, reinvestment, and expenses.

Figure 4-9

<b>INTERNATIONAL STOCK FUND</b>			
Ten Largest Holdings at June 30, 2003			
Security Name	Country	Market Value	%
Total SA Eur 10 Serie B	France	\$34,010,186	1.68%
Vodafone Group	United Kingdom	26,755,655	1.32%
ORD USD .10			
Glaxosmithkline	United Kingdom	26,509,635	1.31%
ORD GBP .25			
ENI EUR1	Italy	23,544,524	1.16%
Novartis AG			
CHF .50 REGD	Switzerland	22,255,030	1.10%
Nokia AB OY EUR .06	Finland	21,331,074	1.05%
Deutsche Telekom NPV	Germany	20,061,572	0.99%
Telefonica SA EUR 1	Spain	19,720,441	0.97%
Royal Dutch			
Petrol EUR .56	Netherlands	19,034,995	0.94%
Deutsche Bank			
AG ORD NPV	Germany	18,583,273	0.92%
<b>TOTAL</b>		<b>\$231,806,385</b>	<b>11.44%</b>

# 2003 real estate fund

## Fund Facts at June 30, 2003

**Investment Strategy/Goals:** To hedge against inflation, reduce volatility of returns, and provide a long-term rate of return similar to equity investments by investing in equity commercial real estate.

**Performance Objective:** An annual total return which is one percentage point greater than the index.

**Benchmark:** National Council of Real Estate Investment Fiduciaries Index (NCREIF) 1 quarter lag.

**Date of Inception:** July 1, 1982

**Total Net Assets:** \$425,790,159

**Number of Advisors:** 7 external

**Management Fees <sup>(1)</sup>:** \$1,217,754

**Operating Expenses:** \$359,895

**Expense Ratio:** 0.35%

**Capitalized and Netted Fees:** \$3,654,571

*(1) See note 1 to the Financial Statements for a discussion of similar fees incurred at the investment level.*

## Performance Summary

For the fiscal year ended June 30, 2003, the Real Estate Fund (REF) generated a total return of 3.30%, net of fees, which under performed the National Council of Real Estate Investment Fiduciaries Index (NCREIF) of 7.13% by 383 basis points. This performance is primarily attributable to REF's under exposure to core real estate strategies and traditional property types and over exposure to opportunistic strategies and hotels as well as nontraditional property types such as senior living facilities.

During the fiscal year, the value of REF's portfolio declined from \$471 million to \$426 million. The \$45 million decrease was primarily due to net distributions to unit holders. This amount was comprised of income distributions to beneficiaries of \$43 million and net redemptions paid out to unit holders of \$17 million. \$15 million generated by operations offset these amounts. Funds from operations were comprised of net investment income of \$6 million, realized gains of \$36 million and unrealized loss on investments of \$27 million.

For the trailing three, five and ten-year periods, REF's compounded annual total return was 5.99%, 7.41%, and 6.47%, respectively, net of all expenses. (See figure 5-8.) The REF returns under performed the benchmark in the three, five and ten year periods by 256 basis points, 283 basis points and 291 basis points, respectively. The under performance for the three and five year periods are indicative of the "J curve" effect of the four opportunity fund investments, which comprise a significant portion of the Fund. Markets that favor highly occupied, cash generating properties in traditional property types, have hurt the REF's recent performance. REF's concentration in opportunistic investments has resulted in a focus on value creation and capital gains and features significant exposure to non-traditional property types. Reasons for underperformance in the ten-year category include adverse asset selection and asset sales in a weak domestic real estate market (the early and mid nineteen nineties). Management fees, operating expenses and significant write-downs taken in the mid nineteen nineties have also contributed to the Fund's below-benchmark performance over this time period.

## Description of the Fund

The Real Estate Fund is an externally managed fund that invests in real estate properties and mortgages. It serves as a long-term investment tool for the pension funds and is designed to dampen volatility of overall returns through diversification and to provide long-term rates of return similar to the Mutual Equity Fund. Over the short-term, REF is expected to provide a real rate of return above the rate of inflation during most economic conditions. In periods of rising inflation, REF is expected to add substantially to the performance of the pension funds.

REF's performance objective is an annual total return, net of management fees and operating expenses, which exceeds that of the NCREIF index by 100 basis points, or one percentage point, per annum.

### **Portfolio Activity**

During the prior fiscal year, the Connecticut Retirement Plans and Trust Funds (CRPTF) retained Pension Consulting Alliance (PCA) as its real estate investment consultant. PCA assisted the Treasurer and her staff in the development of Asset Class Guidelines for Real Estate. These Guidelines were adopted by the Treasurer and approved by the Investment Advisory Council subsequent to fiscal year end.

During the fiscal year, the REF continued to monitor its existing investment strategies while performing a major reevaluation of such strategies in conjunction with PCA. The resulting strategic review is targeted for completion next fiscal year. With regard to REF's \$362 million in outstanding commitments, only \$9.0 million remained unfunded at fiscal year end. During the fiscal year, REF provided funding of \$8.6 million to one fund. This is the only fund that is still in its investment period. Distributions received totaled \$66.7 million.

The Fund also continued its program of opportunistically attempting to sell separate account investments that were acquired in the late nineteen eighties and early nineties. No such assets were sold during the fiscal year. REF continues to position the remaining single-asset investments for sale. The focus during this process is on maximizing returns.

No new funding commitments were made to real estate investment ventures.

During the fiscal year, the U.S. economy continued its "jobless recovery". This was not helpful for real estate returns in that occupancy rates and rents declined in response to reduced tenant demand. Despite the negative fundamentals, strong capital flows into real estate by institutional and individual investors and unprecedented low interest rates have helped to prop up asset values. Within the commercial real estate market, a growing dichotomy in relative values became evident. This occurred as investors aggressively pursued premium properties – well located assets in major cities with minimal vacancy and strong tenant rosters and avoided other properties. The premium properties experienced major valuation increases while the values of the less sought after properties have been propped up by low interest rates.

### **Portfolio Characteristics**

Real Estate investment is a complex and intensive asset management process. REF's investments are restricted by policy to the purchase of shares in group annuities, limited partnerships, group trusts, corporations, and other indirect ownership structures managed by professional commercial real estate investment firms. At June 30, 2003, the portfolio consisted of 10 externally managed portfolios, with 26% of the Fund's net assets invested in real estate separate accounts, 73% invested in commingled funds and 1% invested in cash and other net assets.

The Fund's ten largest holdings aggregated to 98.6% of REF investments. (See figure 5-12.)

As currently structured, office properties constitute the single largest component of REF's portfolio at 30%, with industrial (2%), retail (12%), apartments (6%), and hotels (11%) comprising 61% of the Fund. The "other" category, which accounts for 39% of net assets, includes significant exposures in senior living (21%), mixed-use (7%) and storage facilities (4%). The balance of the portfolio is comprised of land, timberland, and cash and other monetary assets. (See figure 5-7.)

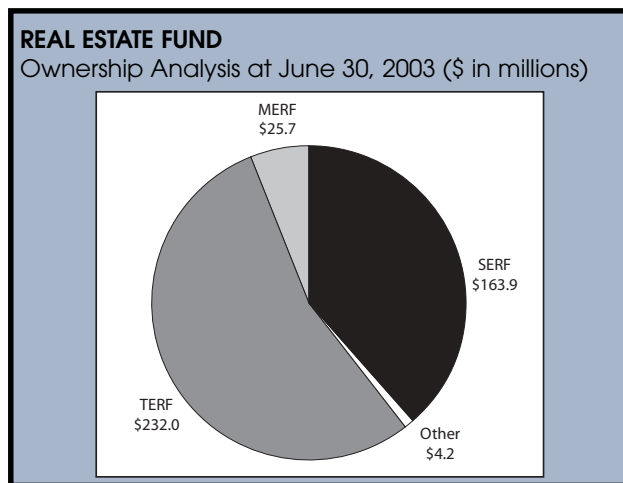
The portfolio is reasonably well diversified geographically with 36% of its assets invested in the East, 18% in the West, 29% in the South, and 7% in the Midwest. The remaining 10% is comprised of "other" and includes investments distributed nationally across the U.S. (4%), and internationally (5%), while cash and other net assets account for the remainder (1%). (See figure 5-6.)

### Risk Profile

Given REF's investments policy and objectives, the Fund is exposed to several forms of risk. These include risks attendant to alternative investments, such as management, operations, market, and liquidity risk, but also include geographic, financing, and construction risks specific to real estate investments.

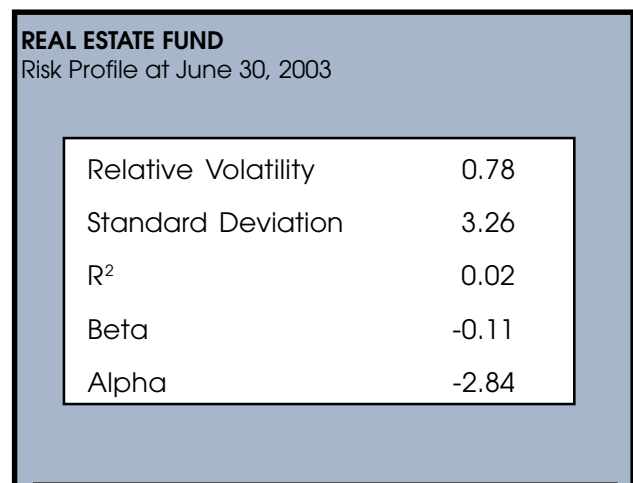
As shown below, based on returns over the last five years, the Fund has exhibited substantially more volatility than its benchmark. The Fund's statistics are consistent with its extraordinarily low R<sup>2</sup> of 0.02, signifying almost no correlation between Fund returns and those of the benchmark. Its beta of negative 0.11 indicates little sensitivity to overall fluctuations in the benchmark. In the aggregate, the Fund's monthly alpha, or return relative to that achieved by the benchmark, was negative 2.84 over the five-year time period. (See figure 5-2.)

Figure 5-1



TERF - Teachers' Retirement Fund  
SERF - State Employees Retirement Fund  
MERF - Connecticut Municipal Employees' Retirement Fund

Figure 5-2



(1) Based upon returns over the last five years.

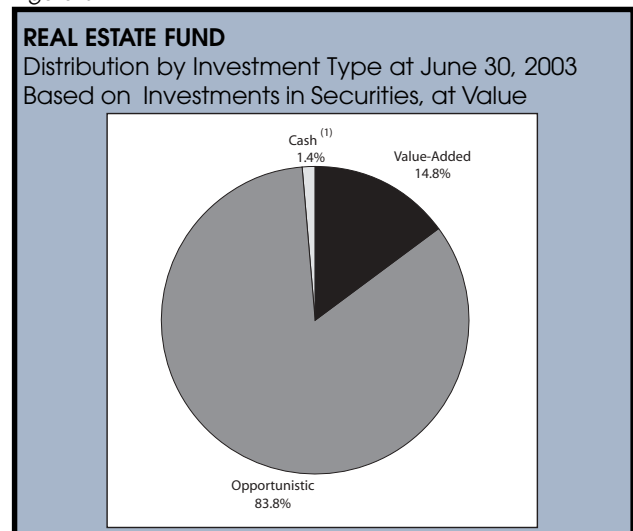
Figure 5-3

**REAL ESTATE FUND**  
Investments Analysis <sup>(1)</sup>

At	No. of REF Investments	REF Book Value	REF Market Value
6/30/03	10	393,641,512	420,132,363
6/30/02	10	413,693,249	467,819,628
6/30/01	10	403,106,638	471,662,581
6/30/00	11	434,881,420	478,966,334
6/30/99	14	395,221,763	380,769,286
6/30/98	20	407,989,996	379,124,673
6/30/97	24	540,133,490	475,213,540
6/30/96	41	1,111,459,897	924,414,185
6/30/95	51	1,185,277,530	1,055,418,296
6/30/94	46	1,362,061,563	1,031,355,740

(1) Number of investments in annuities, partnerships, corporations, and trusts, excluding the Cash Reserve Account.

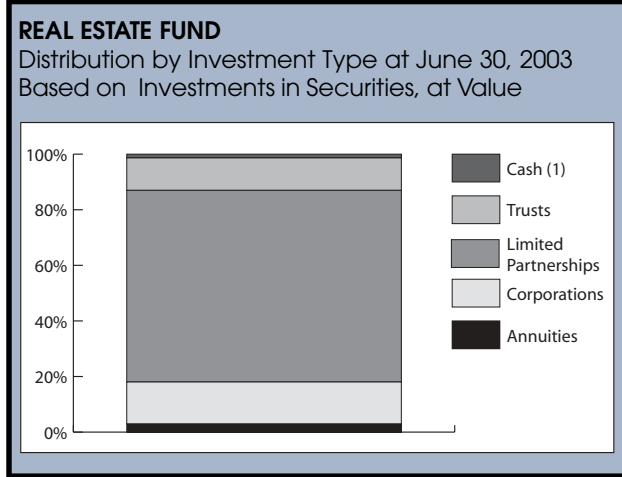
Figure 5-4



(1) Cash Reserve Account and other monetary assets.

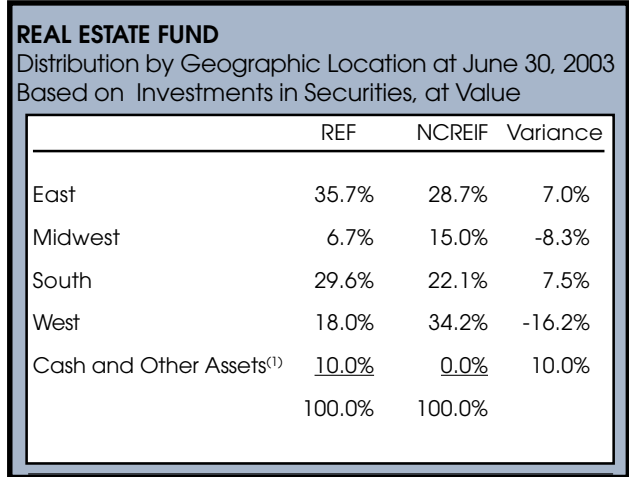
CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS

Figure 5-5



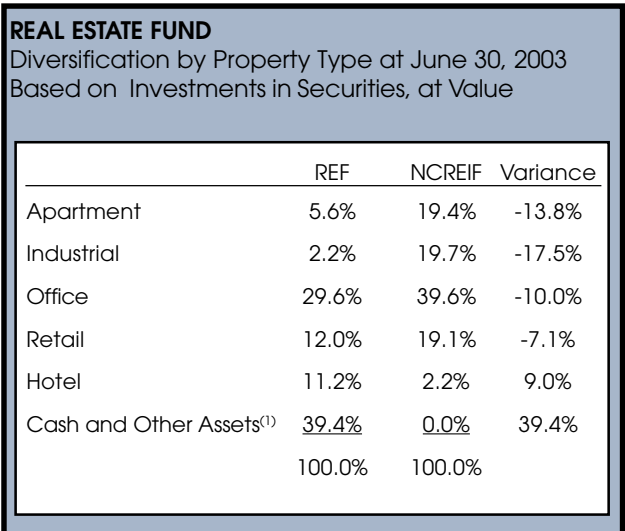
(1) Cash Reserve Account.

Figure 5-6



(1) Includes national (3.8%) and non-U.S. (4.9%) and cash and monetary assets (1.3%).

Figure 5-7



(1) Other includes senior living (21.4%), mixed use (6.6%), land (1.8%), timberland (3.9%), storage facilities (4.3%), and cash and other assets (1.3%).

Figure 5-8

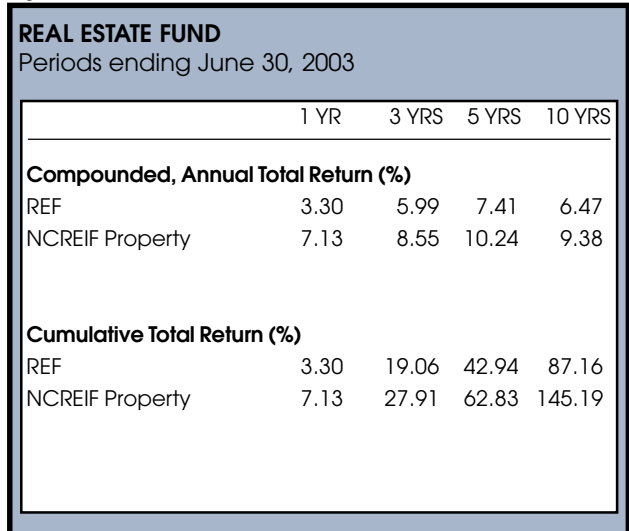


Figure 5-9

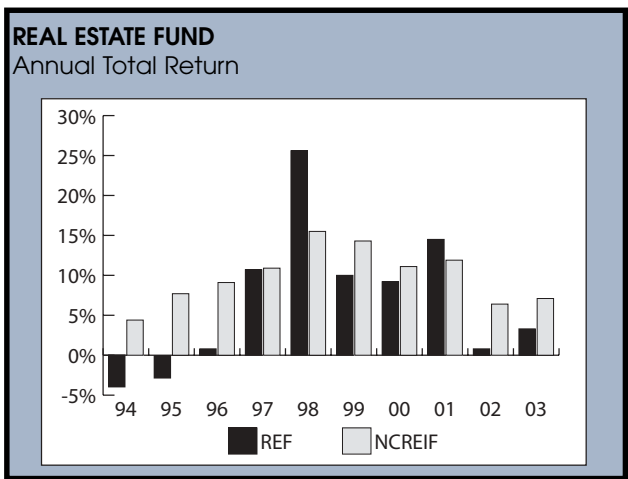
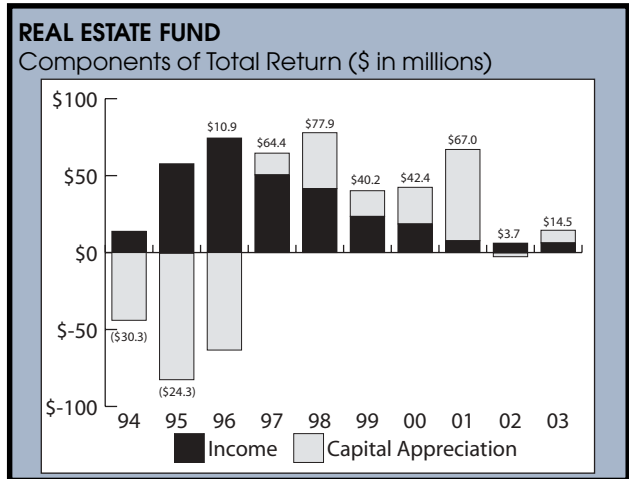


Figure 5-10



CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS

Figure 5-11

<b>REAL ESTATE FUND</b>		
Investment Advisors at June 30, 2003		
<b>Investment Advisor</b>	<b>Net Asset Value</b>	<b>% of Fund</b>
AEW Capital Management	\$104,447,895	24.53%
Westport Senior Living	75,976,846	17.84%
Walton Street Real Estate	75,224,577	17.66%
Apollo Real Estate	71,232,718	16.72%
Tishman Hotel Corporatation	47,043,121	11.05%
Evergreen Investments	17,294,999	4.06%
New Boston Fund	16,495,150	3.87%
CIGNA Realty Investors	12,400,831	2.91%
Other <sup>(1)</sup>	5,674,022	1.36%

Figure 5-12

<b>REAL ESTATE FUND</b>			
Ten Largest Holdings at June 30, 2003			
<b>Property Name</b>	<b>Type</b>	<b>Market Value</b>	<b>%</b>
Westport Sr. Living Inv FD	Sr Living	\$75,976,846	17.84%
Walton Street RE II LP Fnd 2	Various	75,224,577	17.66%
AEW Partners III	Various	71,275,452	16.74%
Apollo Real Est Invest Fd III	Various	71,232,718	16.72%
Tishman Goodwin Center	Mixed	47,043,121	11.05%
Union Station LTD LP	Mixed	33,172,443	7.79%
New Boston Fund IV	Various	16,495,150	3.87%
Timberland Fund A-Duplin	Timber	15,046,650	3.53%
Worcester Center	Mixed	12,400,831	2.91%
Timberland Fund A-Ball's Qtr	Timber	2,248,349	0.53%
<b>TOTAL</b>		<b>\$420,116,137</b>	<b>98.64%</b>

(1) Other represents funds earmarked for distribution to participants, reinvestment, and expenses.



# 2003 mutual fixed income fund

## Fund Facts at June 30, 2003

**Investment Strategy/Goals:** To provide diversification in different economic environments.

**Performance Objective:** To exceed the return of the hybrid index by 65 - 135 basis points per annum over rolling five year periods.

**Benchmark:** 73% LB Aggregate, 17% Citigroup High Yield Market Index and 10% JPM Emerging Markets Bond Index.

**Date of Inception:** July 1, 1972

**Total Net Assets:** \$6,609,600,314

**Number of Advisors:** 9 external

**Management Fees:** \$8,787,612

**Operating Expenses:** \$1,135,309

**Expense Ratio:** 0.15%

**Turnover:** 395.1%

## Performance Summary

For the fiscal year ended June 30, 2003, the Mutual Fixed Income Fund (MFIF) generated a total return of 12.03% net of manager fees, underperforming the hybrid benchmark return of 15.53% by 350 basis points. Principal reasons for the Fund's performance was due to an under-exposure to high yield and emerging market debt segments relative to the benchmark. Comparative returns from other indexes include: The Citigroup High Yield Market Index 26.4%, and JP Morgan Emerging Markets Bond Index 35.4% (JP EMBI+).

During the fiscal year, the Fund increased \$83 million, from \$6.526 billion to \$6.609 billion. Of this total, \$333 million resulted from net investment income and \$378 million from realized and unrealized gains, which were offset by \$628 million of net cash outflows to participating Pension and Trust Funds.

For the trailing three, five and ten-year periods, MFIF's compounded annual total return was 8.54%, 6.78% and 7.34%, respectively, net of manager fees. These returns exceeded those of the Fund's benchmark for the ten year period, but were behind the index for the three and five-year periods.

The cumulative total returns for the three, five, and ten-year periods ending June 30, 2003, were 27.85%, 38.79% and 103.03%, respectively.

## Description of the Fund

The Mutual Fixed Income Fund is an externally managed fund investing primarily in domestic fixed income securities. The Fund serves as an investment tool for the Pension and Trust Funds with the goal of reducing volatility in returns under various economic scenarios. Fixed income securities represent fixed, variable, and zero coupon bonds issued by the federal and state governments, foreign governments, domestic and international corporations, and municipalities. During periods of low inflation, fixed income investments may enhance the overall performance of the Pension and Trust Funds, while in times of moderate inflation and high nominal interest rates, these investments may contribute satisfactory investment returns.

During fiscal year 2003, the Office of the Treasurer completed a structure review for the Fund as part of its continuing implementation of the Asset Allocation Policy and strategy for the Mutual Fixed Income Fund. The new benchmark is a hybrid comprising 73% LB Aggregate, 17% Citigroup High Yield Market Index, and 10% JP EMBI+, and the Fund's goal is to exceed the return of the hybrid index by 65-135 basis points per annum over rolling five-year periods.

At June 30, 2003, nine advisors managed investments in the Fund. The Fund's investments were allocated to five advisors investing 88% of the portfolio in core/core-plus strategies, and



three advisors actively investing 12% of the portfolio in domestic high yield products. A few managers were allowed to expand their investment opportunity set to include below investment grade bonds and/or international bonds; these mandates have been classified as core-plus strategies.

### **Portfolio Characteristics**

MFIF continues to be well diversified across the spectrum of available fixed income securities. The Fund maintained a strong concentration in corporate securities, comprising approximately 30.3% of the Fund's investment securities at fiscal year-end. Government securities were below the benchmark at 19.0% of the Fund, compared to 21.9% for the benchmark. Sector concentrations differed from those comprising the LB Aggregate, reflecting the collective allocations of the Fund's active investment advisors. The Fund's average quality rating was AA-3, as judged by Moody's Investor Services, supported by its 53.8% concentration in mortgage-backed, U.S. Treasury, and Agency securities. Relative to the Index, MFIF held a lesser degree of below investment grade securities including emerging market debt.

At fiscal year end, 87% of Fund investments were in fixed income securities with the balance held in cash.

### **Risk Profile**

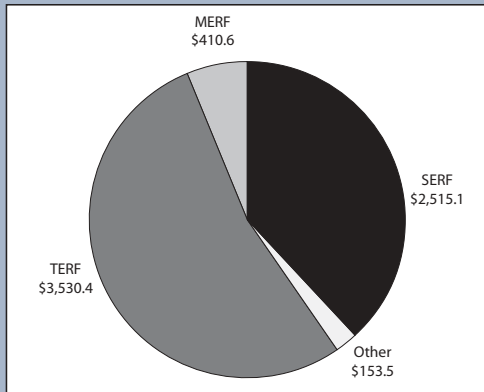
Given MFIF's investment policies and objectives, the Fund is exposed to several forms of risk. These include, but are not limited to, purchasing power risk, default risk, reinvestment risk, and market risk. In addition, the Fund is occasionally exposed to political and economic risk and currency risk resulting from investments in international fixed income securities.

In fixed income investing, returns are extremely sensitive to changes in market interest rates. As such, the longer the time to maturity of a fixed income investment (and the resultant increase in time during which interest rates may change), the greater the level of risk assumed. To measure the degree of MFIF's price sensitivity to changes in market interest rates, the Fund's duration, or the weighted average time period over which cash flows are received by the investor, is monitored. At June 30, 2003, the Fund's duration was at 4.6 years versus 4.2 years for the LB Aggregate Index. While often viewed as an indicator of risk, duration can, if managed effectively, contribute significantly to total Fund returns.

CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS

Figure 6-1

**MUTUAL FIXED INCOME FUND**  
Ownership Analysis at June 30, 2003 (\$ in millions)



TERF - Teachers' Retirement Fund  
SERF - State Employees Retirement Fund  
MERF - Connecticut Municipal Employees' Retirement Fund

Figure 6-2

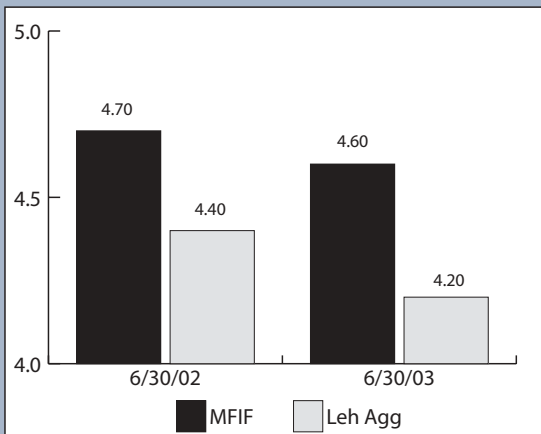
**MUTUAL FIXED INCOME FUND <sup>(1)</sup>**  
Risk Profile at June 30, 2003

Relative Volatility	1.01
Standard Deviation	3.78
R <sup>2</sup>	0.65
Beta	0.82
Alpha	-0.85

(1) Based upon returns over the last five years.

Figure 6-3

**MUTUAL FIXED INCOME FUND**  
Modified Duration vs. Index <sup>(1)</sup> (in Years)



(1) Computed without the effect of Cash and other Net Assets.

Figure 6-4

**MUTUAL FIXED INCOME FUND**  
Distribution by Sector at June 30, 2003  
Based on Investments in Securities, at Value

	MFIF	LB Aggregate	Variance
Treasury	19.0%	21.9%	-2.9%
Agency	25.7%	12.2%	13.5%
Corporate	30.3%	27.4%	2.9%
Mortgage-Backed	9.1%	34.2%	-25.1%
Asset-Backed	1.1%	1.8%	-0.7%
Other <sup>1</sup>	14.7%	2.5%	12.2%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	

(1) Other category includes non fixed-income securities such as common and preferred stock and convertible securities, cash and other assets.

Figure 6-5

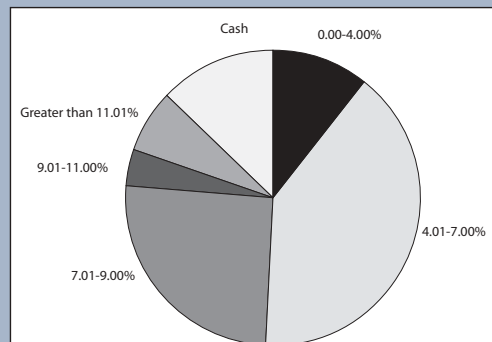
**MUTUAL FIXED INCOME FUND**  
Distribution by Quality Rating at June 30, 2003  
Based on Investments in Securities, at Value

Aaa	52.0%
Aa	3.7%
A	7.7%
Baa	9.1%
Less than Baa	10.0%
Not Rated <sup>(1)</sup>	4.6%
Cash <sup>(2)</sup>	12.8%
<b>Total</b>	<b>100.0%</b>

(1) Represents securities for which ratings are unavailable.  
(2) Represents monies invested in the Cash Reserve Account.

Figure 6-6

**MUTUAL FIXED INCOME FUND**  
Distribution by Coupon at June 30, 2003  
Based on Investments in Securities, at Value



CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS

Figure 6-7

**MUTUAL FIXED INCOME FUND**  
Macauley Duration Distribution at June 30, 2003  
Based on Investments in Securities, at Value

0-3 Years	32.1%
3-5 Years	16.0%
5-7 Years	7.5%
7-10 Years	12.6%
10+ Years	14.5%
Unknown <sup>(1)</sup>	4.5%
Cash <sup>(2)</sup>	12.8%
<b>Total</b>	<b>100.0%</b>

(1) Represents securities for which the Macauley Duration could not be calculated by the custodian.  
(2) Represents monies invested in the Cash Reserve Account.

Figure 6-8

**MUTUAL FIXED INCOME FUND**  
Periods ending June 30, 2003

	1 YR	3 YRS	5 YRS	10 YRS
<b>Compounded, Annual Total Return (%)</b>				
MFIF	12.03	8.54	6.78	7.34
MFIF Hybrid Benchmark	15.53	9.86	7.64	7.26
<b>Cumulative Total Return (%)</b>				
MFIF	12.03	27.85	38.79	103.03
MFIF Hybrid Benchmark	15.53	32.59	44.49	101.49

Figure 6-9

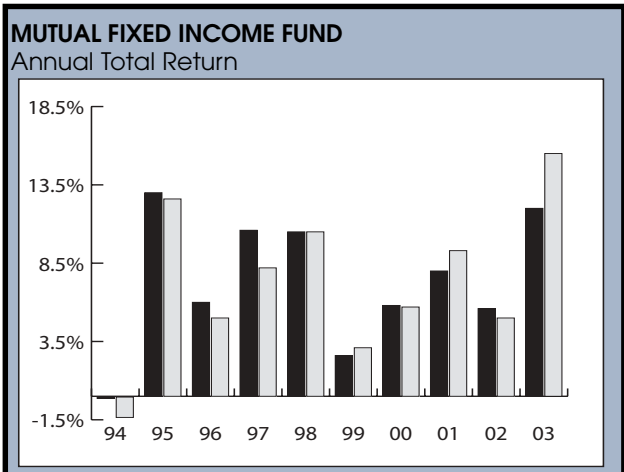


Figure 6-10

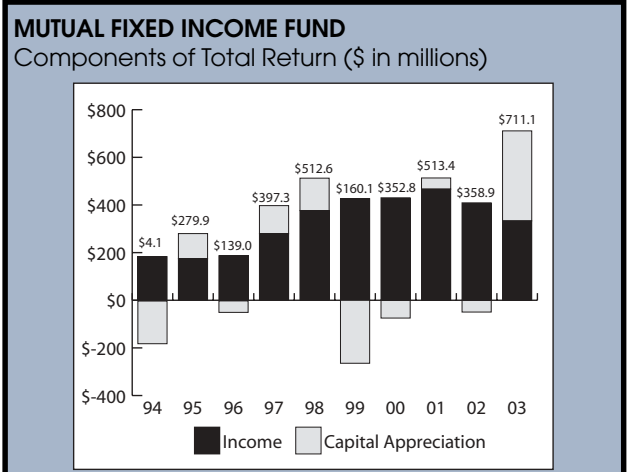


Figure 6-11

**MUTUAL FIXED INCOME FUND**  
Investment Advisors at June 30, 2003

Investment Advisor	Net Asset Value	% of Fund
<b>Core</b>	<b>\$5,786,698,371</b>	<b>87.55%</b>
Western Asset Management Co.	1,578,091,449	23.87%
State Street Global Advisors	1,562,280,692	23.64%
BlackRock Financial Mgmt Inc.	1,251,837,018	18.94%
Wellington	1,070,671,136	16.20%
Phoenix	323,818,076	4.90%
<b>High Yield</b>	<b>\$807,818,592</b>	<b>12.22%</b>
Loomis Sayles & Co., Inc.	326,963,012	4.95%
W.R. Huff Asset Management	254,881,050	3.85%
Oaktree Capital Mgmt L.L.C.	225,880,502	3.42%
Triumph II LP	94,028	0.00%
<b>Other<sup>(1)</sup></b>	<b>\$15,083,351</b>	<b>0.23%</b>

(1) Other represents funds earmarked for distribution to participants, reinvestment, and expenses.

Figure 6-12

**MUTUAL FIXED INCOME FUND**  
Ten Largest Holdings at June 30, 2003

Security Name	Maturity	Market Value	%
GNMA TBA	12/15/2033	\$141,881,250	1.94%
FNMA TBA	12/31/2033	112,010,938	1.53%
FNMA TBA	12/31/2033	108,024,141	1.48%
U.S. Treasury Notes	07/17/2003	106,555,497	1.46%
FNMA TBA	12/01/2033	98,988,977	1.35%
GNMA TBA	12/15/2033	57,335,469	0.78%
FNMA TBA	12/31/2033	56,211,425	0.77%
U.S. Treasury Notes	03/31/2005	55,378,125	0.76%
U.S. Treasury Bonds	02/15/2031	48,785,746	0.67%
Germany FED REP	08/17/2007	47,600,668	0.65%
<b>TOTAL</b>		<b>\$832,772,236</b>	<b>11.39%</b>

CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS

Figure 6-13

**MUTUAL FIXED INCOME FUND**

Comprehensive Profile for the Fiscal Years ending June 30,

	2003		2002		2001		2000		1999	
	MFIF	LB Agg	MFIF	LB Agg	MFIF	LB Agg	MFIF	LB Agg	MFIF	LB Agg
Number of Issues	4,319	7,472	4,071	6,892	3,633	6,414	3,226	5,974	2,689	5,381
Average Coupon	6.20%	6.10%	6.60%	6.50%	6.90%	6.90%	7.00%	7.00%	6.60%	6.90%
Yield Maturity	4.50%	3.40%	6.50%	5.30%	7.60%	6.20%	8.20%	7.20%	7.60%	6.50%
Average Maturity	7.50	6.20	8.40	7.30	9.70	8.30	9.70	8.50	10.30	8.90
Modified Duration <sup>(2)</sup>	4.60	4.20	4.70	4.40	5.30	4.80	5.40	4.90	6.20	5.10
Average Quality	AA-3	AA-1	AA-3	AA-1	AA-3	AA-1	AA-3	AAA	A1	AAA
Cash <sup>(1)</sup>	12.8%	0.0%	10.9%	0.0%	10.3%	0.0%	13.0%	0.0%	13.1%	0.0%

(1) Includes funds invested in the Cash Reserve Fund.

(2) Compounded without the effect of Cash and Other Net Assets.

Figure 6-14

**MUTUAL FIXED INCOME FUND**

Quarterly Current Yield <sup>(1)</sup> vs. Indices (%)

	6/30/03	3/31/03	12/31/02	9/30/02	6/30/02
<b>MFIF</b>	<b>5.12</b>	<b>5.22</b>	<b>5.38</b>	<b>5.62</b>	<b>5.83</b>
Leh Agg	5.33	5.55	5.70	5.84	6.13
Salomon 91 Day T-Bill	0.85	1.10	1.20	1.56	1.74
Lehman Treasury	4.57	4.84	4.95	5.03	5.55
Lehman Agency	4.34	4.49	4.66	4.82	5.15
Lehman Mortgage	5.78	5.96	6.11	6.27	6.40
Lehman Corporate	5.92	6.10	6.24	6.46	6.85
Lehman Asset Backed	4.64	5.08	5.35	5.43	5.63

(1) Current Yield represents annual coupon interest divided by the market value of securities.

# 2003 commercial mortgage fund

## Fund Facts at June 30, 2003

**Investment Strategy/Goals:** To achieve yields in excess of those available on domestic fixed income securities by investing in mortgages on income producing property or in commercial mortgage backed securities (CMBS).

**Performance Objective:** An annual total return which is one percentage point greater than that of the Lehman Aggregate Index after expenses.

**Benchmark:** Lehman Aggregate Index

**Date of Inception:** November 2, 1987

**Total Net Assets:** \$72,282,499

**Number of Advisors:** 1 external

**Management Fees:** \$417,400

**Operating Expenses:** \$17,825

**Expense Ratio:** 0.60%

## Performance Summary

For the fiscal year ended June 30, 2003, the Commercial Mortgage Fund (CMF or the Fund) generated a return of 20.62%, net of management fees and operating expenses, significantly out performing the Lehman Aggregate Index of 10.41% by 1021 basis points. The Fund's favorable performance is attributable to its yield advantage versus the benchmark, a significant prepayment penalty received and the improvement in the valuation of its hotel loans.

During the fiscal year, CMF assets declined from \$73 million to \$72 million, a decrease of \$1 million. This decrease was due to cash outflows to the Fund's unit holders of \$15 million offset by \$14 million generated by operations. The outflows were paid from loan maturity and amortization proceeds. The \$14 million generated from operations consisted of \$9 million of net operating income and \$5 million of unrealized gain.

For the trailing three, five, and ten-year periods, CMF's total compounded annual portfolio return was 10.61%, 9.22% and 9.14%, respectively, net of all expenses. The Fund's results over the three, five and ten-year periods exceeded the benchmark by 53 basis points, 168 basis points and 193 basis points, respectively. (See figure 7-7.)

## Description of the Fund

CMF is an externally managed fund that holds mortgages on income-producing commercial property. Established in 1987, it serves as a fixed income investment tool for the pension plans with the goal of realizing yields in excess of those available from traditional domestic fixed income securities, while accepting slightly greater credit risk.

CMF's investment assets consist of an externally managed portfolio of commercial real estate mortgage loans and interests in Yankee Mac pooled residential mortgage-backed securities, created pursuant to a previous Connecticut State Treasury program.

The Fund's performance objective is an annual total return, net of management fees and operating expenses, which exceeds that of Lehman Aggregate Index by 100 basis points.

## Portfolio Activity

At June 30, 2003, the Fund consisted of five commercial mortgage loans with a combined value of \$49.5 million and seven residential mortgage pools with a combined value of \$0.9 million. The balance of the Fund's assets consisted of short-term cash investments. During the fiscal year one portfolio loan was paid off. This loan resulted in the receipt of \$21.6 million including a \$5.1 million prepayment penalty. These proceeds comprised virtually all of the Fund's short-term cash investments at June 30 and were distributed to unit holders in July. The Fund continued to be inactive regarding new loans and is being managed to maximize the total return on its remaining holdings.

The Fund's primary investment manager performed a hold/sell review of the portfolio during the fiscal year. This review evaluated whether a portfolio sale would be advisable. The result was a determination that the market would not fully price the intrinsic value of the portfolio. Furthermore it was determined that holding this portfolio of seasoned, well collateralized and high yielding loans was the most appropriate course of action at this time.

In the fiscal year ended June 30, 2003, the U.S. economy continued the tepid expansion that began in the second half of the previous fiscal year. The tentative nature of economic growth has been evidenced by a stagnant business investment environment with virtually no new job creation. The Federal Reserve Board has labored to nurture this anemic growth by reducing the short term Federal Funds Rate to historically low levels. Longer-term interest rates have also reached relatively low levels, providing a measure of stimulus to overall economic activity. This growth rate, though disappointing to most, has helped stabilize the underlying values of the Fund's residential and hotel loans, the two most significant property types in the portfolio during most of the fiscal year. This was especially evident in the hotel sector, where the pricing of hotel loans rebounded from significant write-downs of the prior year.

### **Portfolio Characteristics**

As its existing loans mature, portfolio diversification has been decreasing. The largest portion of the Fund's net assets, 34%, was invested in residential sector at fiscal year-end, followed by 10% in the hotel sector and 8% in both the retail and industrial sectors. (See figure 7-4.) The Fund has retained reasonable diversification across geographic regions with 27% of investments located in the Northeast, 19% in the East North Central, and 24% in the Mountain. The concentration in the Northeast region and the hotel sector decreased significantly during the year due to the loan payoff noted above. (See figure 7-5.)

The CMF's ten largest holdings aggregated to 69.9% of Fund investments. (See figure 7-11.) This percentage is significantly lower than in prior years due to the large amount of short-term cash investments resulting from the June loan payoff.

The portfolio is healthy from a credit risk standpoint. CMF had no delinquent or non-performing loans at fiscal year end. One of the Fund's investments totaling \$5.6 million is scheduled to mature in the next 12 months.

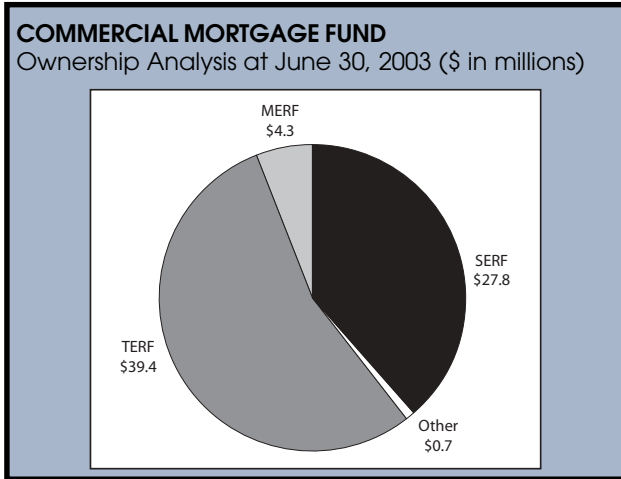
### **Risk Profile**

Given CMF's investment policies and objectives, the Fund is exposed to several forms of risk. These include risks specific to fixed income investing, such as purchasing power risk, market risk, and default risk. Moreover, falling interest rates subject commercial mortgages to the risk of prepayment, thereby shortening investors' assumed time horizon and exposing them to reinvestment risk. However, yield maintenance-based prepayment penalties, which are included in the majority of the Fund's commercial mortgage investments, help minimize this risk.

To measure the Fund's price sensitivity to changes in market interest rates, the Fund's duration, or weighted average time period over which cash flows are received by the investor, is monitored. At June 30, 2003, the Fund's duration was 3.0 years versus 4.2 years for the Lehman Aggregate Index. Therefore, the Fund is less sensitive to interest rate changes than the Lehman Aggregate Index.

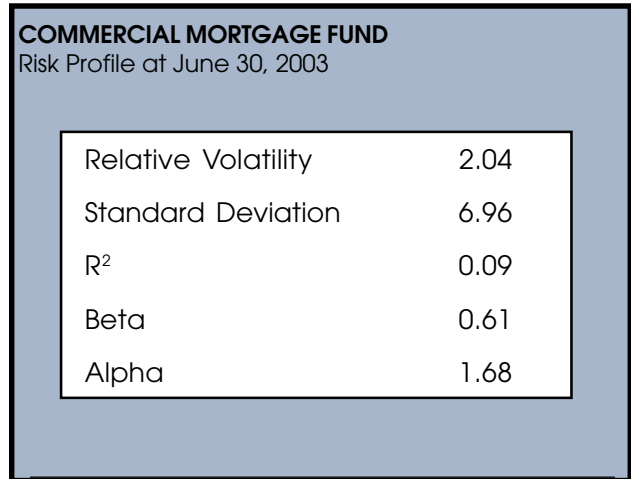
Based on returns over the last five years, the Fund's risk profile is similar to that of the Lehman Aggregate Index. With a relative volatility of 2.04, its returns are slightly more volatile than the index; however, its returns show modest correlation to those achieved by the benchmark. The Fund's beta of 0.61 signifies a reasonable amount of sensitivity to movements in the Index as a whole. CMF's five-year monthly alpha, or return in excess of that predicted by returns in the overall market, at June 30, 2003 was 1.68. (See figure 7-2.)

Figure 7-1



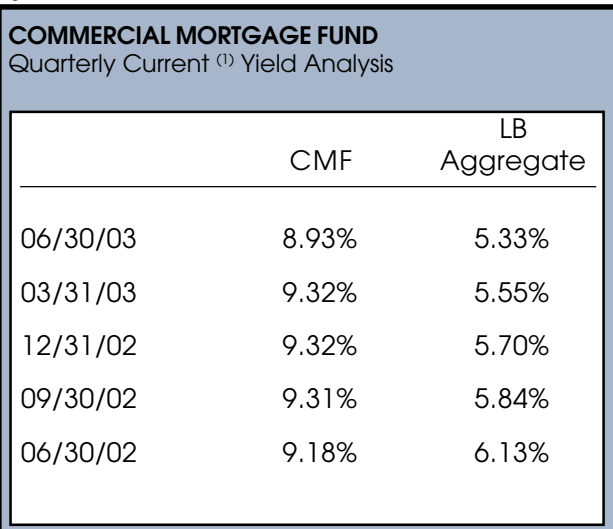
TERF - Teachers' Retirement Fund  
SERF - State Employees Retirement Fund  
MERF - Connecticut Municipal Employees' Retirement Fund

Figure 7-2



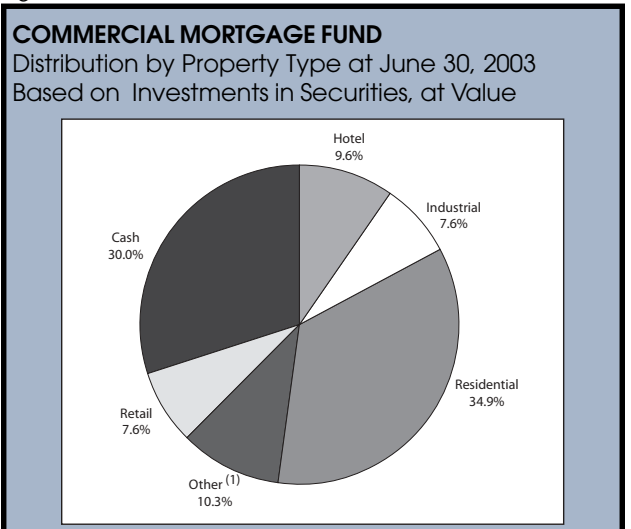
(1) Based upon returns over the last five years.

Figure 7-3



(1) Current Yield represents annual coupon interest divided by the market value of securities.

Figure 7-4



(1) Includes senior ground leases.

Figure 7-5

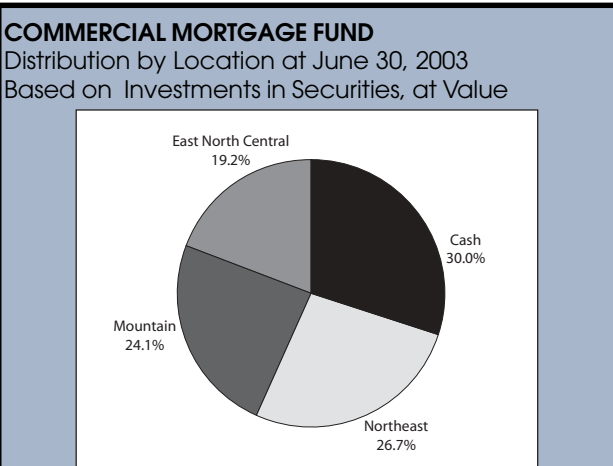
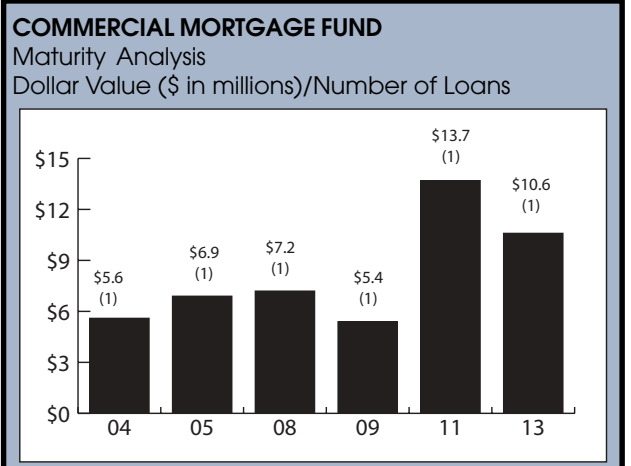


Figure 7-6



CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS

Figure 7-7

**COMMERCIAL MORTGAGE FUND**  
Periods ending June 30, 2003

	1 YR	3 YRS	5 YRS	10 YRS
<b>Compounded, Annual Total Return (%)</b>				
CMF	20.62	10.61	9.22	9.14
Lehman Agg	10.41	10.08	7.54	7.21
<b>Cumulative Total Return (%)</b>				
CMF	20.62	35.33	55.45	139.81
Lehman Agg	10.41	33.40	43.86	100.61

(1) Cash Reserve Account.

Figure 7-8

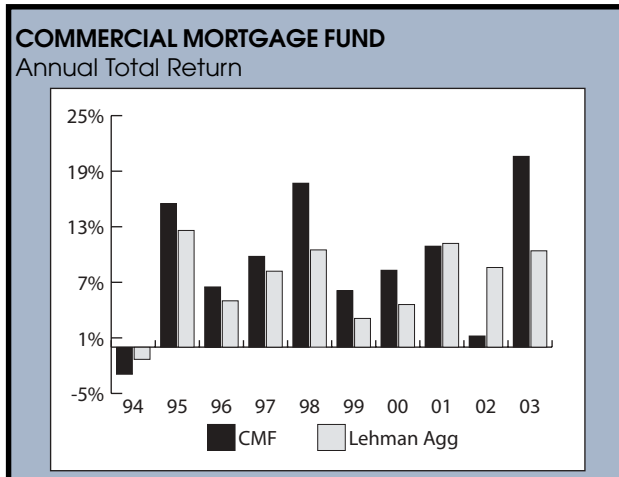


Figure 7-9

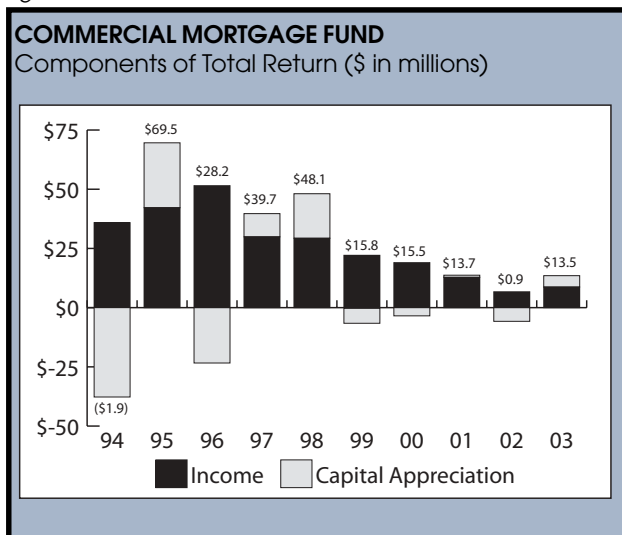


Figure 7-11

**COMMERCIAL MORTGAGE FUND**  
Ten Largest Holdings at June 30, 2003

Property Name	Property Type	Market Value	%
SASCO	Other	\$17,901,104	24.87%
Greenhill Apts	Residential	13,740,471	19.09%
Sheraton Denver West	Hotel	6,864,418	9.53%
Bidderman	Warehouse	5,559,545	7.72%
North Haven Crossing	Retail	5,420,219	7.53%
Yankee Mac E 0.92%	Residential	459,741	0.64%
Yankee Mac G 0.78%	Residential	147,793	0.20%
Yankee Mac F 1.08%	Residential	128,898	0.18%
Yankee Mac C 1.43%	Residential	84,398	0.12%
Yankee Mac B 1.15%	Residential	44,149	0.06%
<b>TOTAL</b>		<b>\$ 50,350,736</b>	<b>69.94%</b>

Figure 7-10

**COMMERCIAL MORTGAGE FUND**  
Investment Advisors at June 30, 2003

Investment Advisor	Net Asset Value	% of Fund
AEW Capital Management	\$49,754,439	68.83%
Other (2)	22,528,060	31.17%

(1) Other also includes residential mortgage-backed securities for the Commercial Mortgage Fund.



# 2003 private investment fund

## Fund Facts at June 30, 2003

**Investment Strategy/Goals:** A long-term asset allocation with the goal of earning returns in excess of the public equity markets through investments in private equity companies.

**Performance Objective:** To outperform the Standard & Poor 500 Index by 500 basis points at the end of ten years.

**Benchmark:** Venture Economics All Private Equity Index.

**Date of Inception:** July 1, 1987

**Total Net Assets:** \$1,848,119,256

**Number of Partnerships:** 43 external

**Expensed Management Fees <sup>(1)</sup>:** \$5,742,250

**Operating Expenses:** \$2,494,498

**Expense Ratio:** 0.40%

**Capitalized and Netted Fees:** \$34,650,755

*(1) See Note 1 to the Financial Statements for a discussion of similar fees incurred at the investment level.*

## Performance Summary

For the fiscal year ended June 30, 2003, the Private Investment Fund (PIF) generated a negative 11.94% Internal Rate of Return ("IRR"), calculated on a time weighted basis. Fiscal year 2003 continued to present a challenging environment for private equity investments. However, it appears that the private equity market has begun the "bottom formation" process which is defined as the stabilization of portfolio company valuations, an improvement of investment pace, and an improvement in the public markets, including the IPO market. The issues that plagued the industry in 2002 – a volatile and under-performing public market, a deep recession in the technology sector and poor portfolio company performance, all show signs of slight improvement in the second quarter of 2003.

According to the Venture Capital Journal<sup>(1)</sup>, a new survey of private equity professionals shows an increasing, albeit cautious, optimism. Venture capitalists are talking more and more about a "bottoming out" of the economy. While they are not predicting dramatic improvement in the near future, a growing number feel they have seen the worst of a bad economic environment. Market indicators are slowly returning to normal. More deals are getting funded, especially seed and early-stage rounds, with transaction flow improving.

Clearly, a change in the private equity investor sentiment is neither binary, nor instantaneous, but rather, a gradual transition to normalcy. According to the Wall Street Journal<sup>(2)</sup>, venture capitalists remain optimistic that the pace of venture capital investment will continue to pick up during the last six months of 2003 – especially with signs that the IPO window may be reopening.

According to MSNBC<sup>(3)</sup>, at a time when total venture capital investment activity has slumped to a seven-year low, a number of venture capital firms are actually planning to ramp up the pace of investments in 2003. For example, Advanced Technology Ventures has already negotiated eight deals this year - more than the seven that it completed in all of 2002. Other firms such as Mobius Venture Capital, Charles River Ventures and Bay Partners are also on track to surpass last year's level of deal activity.

The buyout market maintained its high investment pace in the second quarter, according to Buyouts<sup>(4)</sup>. First-half LBO volume on disclosed deals totaled \$33.2 billion; this surpasses every other first-half year total since Buyouts has maintained records (surpassed only during the second half of 1999 with \$44.1 billion in deals).

Two notable trends in 2003 were the downshift in the size of transactions and the increase in the number of recapitalizations. According to Buyouts<sup>(4)</sup>, there were only three deals that

were over \$1 billion: WL Ross & Co.'s Bethlehem Steel add-on; Evercore Partners and Thomas H. Lee's recapitalization of American Media Inc.; and, Madison Dearborn Capital Partners and Carlyle/Riverstone's purchase of a majority stake in Williams Energy Partners LP. The reduction in the large transactions was the result of the slowdown of the large corporate carveouts.

During fiscal year 2003, PIF's assets decreased from \$2.281 billion to \$1.848 billion, a decrease of \$433 million. The decrease was due to \$181 million of net cash outflows from participating pension plans and trusts and by \$252 million of realized and unrealized capital losses net of investment income.

The Fund outperformed the assigned benchmark, which had a negative return of 14.67% for the fiscal year. While short-term performance is assessed, the Fund has a long-term perspective in evaluating performance, in that it measures the returns over a 10-year time period. This long-term perspective reflects the illiquid nature of the Fund's underlying partnership holdings that require a meaningful length of time to progress through specific developmental periods. As an additional analysis of long-term performance, Figure 8-5 shows PIF's cumulative total return over the three, five and ten-year periods.

In reporting values for PIF, private market valuations are often imprecise. Accordingly, the PIF advisors typically adopt a valuation policy, carrying the investments at cost unless and until there is concrete evidence to write the values up, or reasonable doubt, which indicates that they should be written down. One cause for a write-up would be a successful initial public offering of stock in a private company where the value is determined in an arms-length, public transaction. Likewise, consistently missing important milestones in a company's business plan signifying a reversal in the company's fortunes is considered a reason to write-down the value of an investment. These determinations are made on an on-going basis.

### Description of the Fund

The Private Investment Fund (PIF) is an externally managed fund whose strategic focus is divided among six specific areas: venture capital, corporate buyout, mezzanine, fund of funds, special situations, and international funds. The Private Investment Fund serves as a long-term investment tool for the Pension and Trust Funds, with the goal of earning returns in excess of the public equity markets through investments in private equity companies.

This Fund structure allows for experienced industry professionals to manage PIF's assets while allowing the Fund to realize the benefits of a diversified private market portfolio in the areas of investment type, strategic focus, industry type and geographic region. The performance objective of the Fund is to outperform, net of management fees and Division operating expenses over a rolling ten-year period, the Standard & Poor 500 Index by 500 basis points.

### Portfolio Characteristics

The Private Investment Fund consists of private equity investments, which include six primary areas of strategic focus:

*Buyouts* focused investments can be defined as controlling or majority investments in private equity or equity-like securities of more established companies on the basis of the company's asset values and/or cash flow.

*Fund of Funds* investments are investment funds which may have multiple areas of strategic focus. These funds invest in a multiple of selected private equity partnerships that invest in underlying companies.

*Venture Capital* focused investments can be defined as investments in the private equity or equity-like securities of developing companies in need of growth or expansion capital. These investments can range from early-stage financing, where a company has little more than a marketable idea, to expansion financing, where a company has a marketable product but requires additional capital to bring the product to market.

*Mezzanine Debt* focused investments can be defined as investments in securities located between equity and senior debt in the company's capital structure. Mezzanine debt investments offer higher current income than senior debt securities and often offer equity participation features that may take the form of warrants or contingent equity interests.

*Special Situations* focused investments can be defined as investments in a variety of securities (Debt, Preferred Equity, Common Equity) in portfolio companies at a variety of stages of development (Seed, Early Stage, Later Stage).

*International Private Equity* focused investments can be defined as investments in private equity or equity-like securities in companies located outside the continental United States. International Private Equity investments often offer more attractive return/risk characteristics as a result of the above average rates of growth available in select international economies.

Through June 30, 2003, the PIF had aggregate capital commitments in the amount of \$3.8 billion to 43 partnerships of which approximately 79 percent, or \$3.0 billion has been "drawn down" for investment purposes while the balance of approximately \$0.8 billion or 21 percent is committed but uninvested. (See Figure 8-6.)

### **Risk Profile**

Given PIF's investment policy and objectives, the Fund is exposed to several forms of risk. These include, but are not limited to, risks attendant with alternative investments, such as management, operations, and product risk, as well as overall liquidity risk. Assuming these risks as part of a prudent, total portfolio strategy enables the Private Investment Fund to participate in the possibility of substantial long-term investment returns.

PIF's risk profile is complex given the valuation judgments and liquidity constraints placed on it due to its alternative investment strategy. PIF's volatility relative to its benchmark is .75 with a correlation .79 for the most recent fiscal year. The Fund has returned an annual alpha, or return relative to that predicted by its benchmark, of negative 5.91 (See Figure 8-2.)

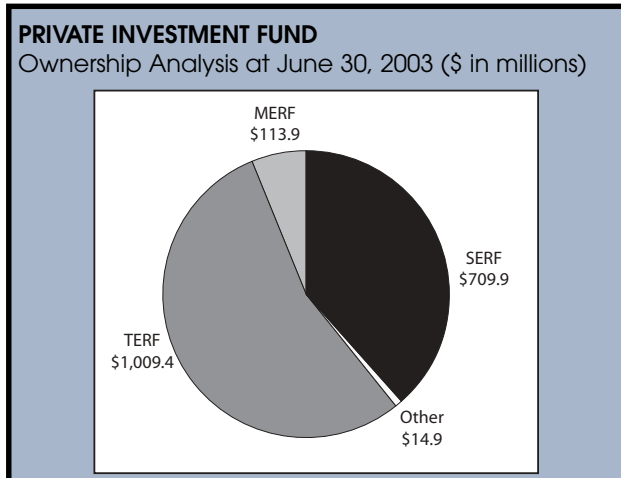
---

#### Footnotes

- (1) "VCs See Bottom, Expect to do More Deals", Venture Capital Journal, July 1, 2003.
- (2) "Venture Capital Shows Signs of Life", Wall Street Journal, July 2, 2003.
- (3) "VC deals fueling turnaround hopes", MSNBC, May 27, 2003.
- (4) "Market Stays Fast And Furious In Q2: First Half Finishes With \$33B", Buyouts, July 7, 2003.

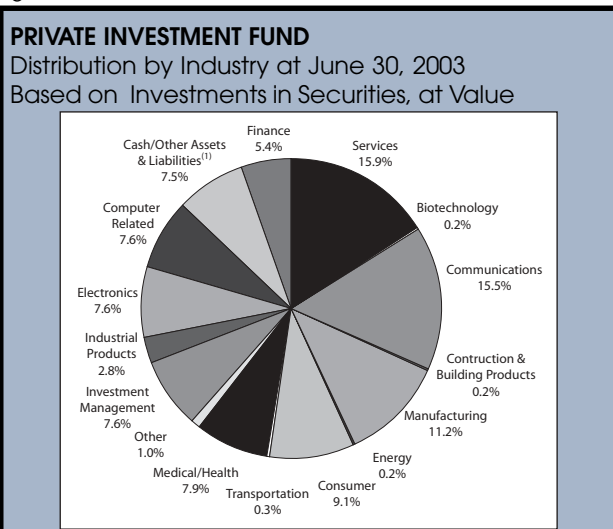
CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS

Figure 8-1



TERF - Teachers' Retirement Fund  
SERF - State Employees Retirement Fund  
MERF - Connecticut Municipal Employees' Retirement Fund

Figure 8-3



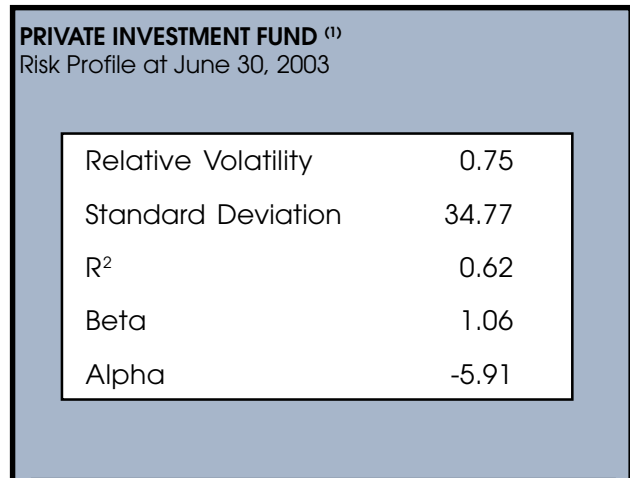
(1) Includes Cash Reserve Account and cash and other assets at the partnership level.

Figure 8-5

**PRIVATE INVESTMENT FUND**  
Periods ending June 30, 2003

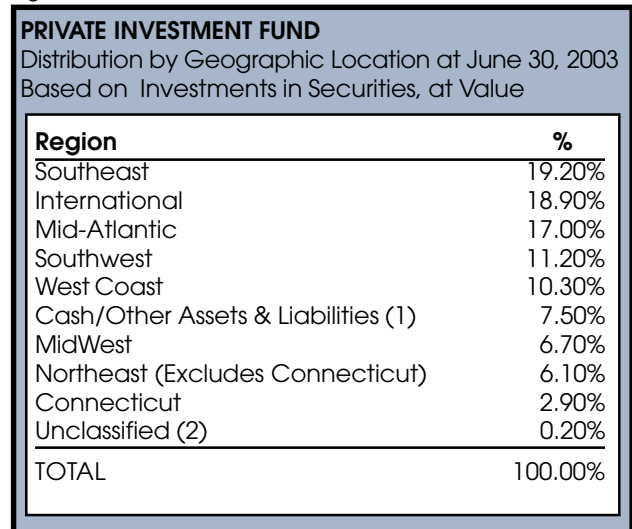
	1 YR	3 YRS	5 YRS	10 YRS
<b>Compounded, Annual Total Return (%)</b>				
PIF	-11.94	-9.70	2.36	10.10
S & P 500	0.26	-11.20	-1.61	10.04
Venture Economics				
All Private Equity	-14.67	-12.24	8.26	16.68
<b>Cumulative Total Return (%)</b>				
PIF	-11.94	-26.37	12.37	161.74
S & P 500	0.26	-29.27	-7.81	160.37
Venture Economics				
All Private Equity	-14.67	-32.40	48.73	367.65

Figure 8-2



(1) Based upon returns over the last five years.

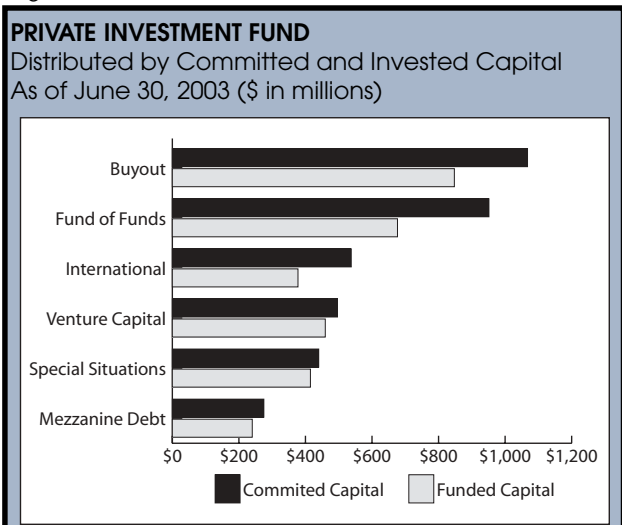
Figure 8-4



(1) Includes the Cash Reserve Account and cash and other assets at the partnership level.

(2) Unclassified represents fund of funds investments where region information could not be obtained.

Figure 8-6



CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS

Figure 8-7

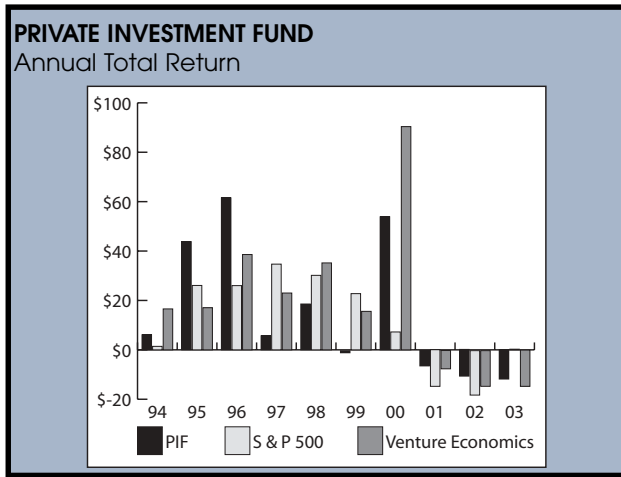


Figure 8-8

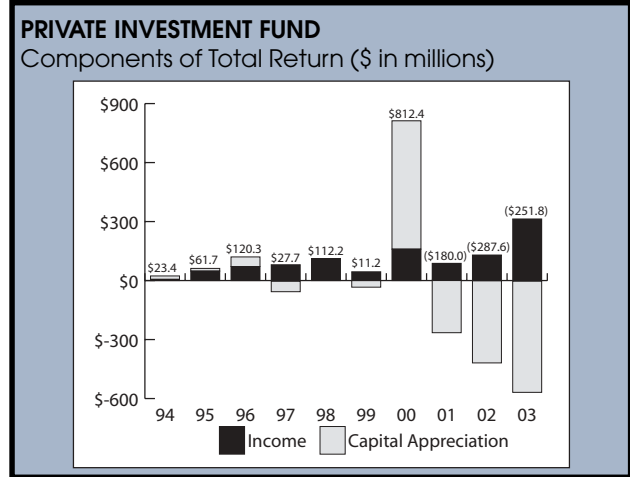


Figure 8-9

**PRIVATE INVESTMENT FUND**  
Ten Largest Holdings at June 30, 2003

Company	Industry	Market Value	%
Integrated Defense Technologies	Electronics	\$104,467,104	5.65%
Raytheon Aerospace Company	Services	75,662,047	4.11%
Citadel Broadcasting Corporation	Communications	69,451,536	3.77%
Global Beverage Systems, Inc.	Consumer	36,512,982	1.98%
AMFM, Inc.	Communications	34,114,242	1.85%
TRAK Communications, Inc.	Communications	29,467,759	1.60%
Elixia, B.V.	Medical/Health Related	29,265,074	1.59%
N & W Global Vending	Manufacturing	25,439,854	1.38%
Honsel AG	Manufacturing	23,319,352	1.27%
LIN Holdings Corporation	Communications	22,581,605	1.23%
<b>TOTAL</b>		<b>\$450,281,555</b>	<b>24.43%</b>

Figure 8-10

**PRIVATE INVESTMENT FUND**  
New Investments Made in Fiscal Year 2003<sup>(1)</sup> (in Excess of \$3 Million)

Description	Industry	Cost	Investment Type	Inv. Date
US Investigations Services, Inc.	Services	\$14,346,397	Mezzanine	January-03
Eurotherm Drives Holdings	Manufacturing	9,961,798	International	November-02
Edscha AG	Manufacturing	8,373,901	International	December-02
Nortek Holdings, Inc.	Manufacturing	8,147,203	Buyout	January-03
AmeriPath, Inc.	Medical/Health	5,814,891	Mezzanine	March-03
Vistar, Inc.	Services	5,120,499	Buyout	May-03
Vatterott Educational Centers, Inc.	Services	4,763,255	Buyout	May-03
Herbalife International, Inc.	Consumer	4,206,823	Mezzanine	July-02
Greenland Investment Holdings Ltd.	Investment Management	3,934,615	International	August-02
Firth Rixon	Manufacturing	3,803,769	International	February-03
Residential Services Group	Services	3,496,824	Buyout	June-03
<b>Total:</b>		<b>\$71,969,975</b>		

(1) These holdings represent underlying portfolio companies that were invested in by the Fund during fiscal year 2003 through one or more of its partnerships. The investments listed in this chart each had a cost basis in excess of \$3.0 million at June 30, 2003. Additional investments of less than \$3.0 million were made in 58 companies totaling \$39.3 million.

CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS

Figure 8-11

<b>PRIVATE INVESTMENT FUND</b>		
Investment Advisors at June 30, 2003		
<b>Investment Advisor</b>	<b>Net Asset Value</b>	<b>% of Fund</b>
<b>Buyout</b>	<b>\$678,428,495</b>	<b>36.71%</b>
Veritas Capital Fund	228,946,125	12.39%
Hicks, Muse Tate & Furst Equity Fund III	87,343,235	4.73%
Thomas H. Lee Equity Fund IV	49,428,160	2.67%
DLJ Merchant Banking Fund II	47,702,824	2.58%
KKR 1996 Fund	37,560,709	2.03%
SCP Private Equity Partners	32,680,003	1.77%
Kelso Investment Associates VI	31,028,608	1.68%
Wellspring Capital Partners II	29,463,944	1.59%
Forstmann Little Equity Fund VI	28,972,970	1.57%
Welsh Carson Anderson & Stowe VIII	26,837,760	1.45%
Blackstone Capital Partners III	24,093,965	1.30%
Green Equity Investors III	22,840,152	1.24%
Wellspring Capital Partners III	14,553,161	0.79%
Thayer Equity Investors IV	11,544,879	0.62%
KKR Millennium Fund	5,432,000	0.30%
<b>Venture Capital</b>	<b>141,237,412</b>	<b>7.64%</b>
Pioneer Ventures Associates	33,920,260	1.83%
Shawmut Equity Partners	28,296,091	1.53%
Crescendo World Fund	19,381,649	1.05%
Grotech Partners V	18,863,705	1.02%
Conning Capital Partners V	15,176,417	0.82%
RFE Investment Partners VI	13,641,473	0.74%
Crescendo III	6,099,472	0.33%
Connecticut Futures Fund	3,274,852	0.18%
Connecticut Greene Ventures	2,443,577	0.13%
CT Financial Development Fund	139,916	0.01%
<b>Mezzanine</b>	<b>\$126,547,846</b>	<b>6.85%</b>
GarMark Partners	62,721,873	3.39%
SW Pelham Fund	51,560,313	2.79%
Triumph Connecticut	12,145,410	0.66%
SW Pelham Fund II LP	120,250	0.01%
<b>International</b>	<b>\$269,601,358</b>	<b>14.59%</b>
Compass Partners European Equity Fund	95,775,876	5.18%
Carlyle Europe Partners	78,695,555	4.26%
AIG Global Emerging Markets Fund	39,052,656	2.12%
Gilbert Global Equity Partners	36,276,725	1.96%
Carlyle Asia Partners	19,800,546	1.07%
<b>Fund of Funds</b>	<b>\$305,262,774</b>	<b>16.52%</b>
Crossroads Constitution Fund	154,285,998	8.35%
Landmark Private Equity Fund VIII	80,719,975	4.37%
Goldman Sachs Private Equity Partners Connecticut	50,274,566	2.72%
Lexington Capital Partners II	19,982,235	1.08%
<b>Special Situations</b>	<b>\$231,715,463</b>	<b>12.53%</b>
Welsh Carson Anderson & Stowe Capital Partners III	88,578,197	4.79%
Triumph Partners III	78,574,736	4.25%
Greenwich Street Capital Partners II	39,469,686	2.14%
Forstmann Little MBO VII	21,683,250	1.17%
Triumph Capital Investors II	3,409,594	0.18%
<b>Other<sup>(1)</sup></b>	<b>\$95,325,908</b>	<b>5.16%</b>

1) Other represents funds earmarked for distribution to participants, reinvestment, and expenses.

**CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS**  
**SCHEDULE OF INVESTMENT ADVISORS AND FEES IN EXCESS OF \$5,000<sup>(1)</sup>**  
**FOR PERIODS ENDED JUNE 30**

Name of Firm	Description of Services	Aggregate Compensation Paid in Fiscal Year:				
		2003	2002	2001	2000	1999
<b>INVESTMENT ADVISORY SERVICES</b>						
<b>Equity Advisory Services</b>						
Alliance Capital	Equity Advisor	-	271,833	-	921,466	770,149
AXA Rosenberg Institutional Equity Mgmt	Equity Advisor	4,415,980	3,791,100	2,820,096	256,310	2,466,444
Barclay's Global Investors	Equity Advisor	3,660,715	11,228,122	11,373,864	2,194,491	1,934,551
Brown Capital Management	Equity Advisor	3,570,359	3,136,368	2,690,100	2,564,010	2,028,123
Dresdner RCM Capital Management, LP	Equity Advisor	-	479,497	2,554,926	1,794,348	406,646
J. P. Morgan Investment Management	Equity Advisor	495,062	6,227,366	695,103	10,316,165	870,746
State Street Global Advisors	Equity Advisor	180,278	170,554	213,097	221,156	189,267
Thomas Weisel Partners (ValueQuest)	Equity Advisor	1,843,059	1,602,094	489,868	464,716	457,704
Travelers Investment Management	Equity Advisor	1,954,445	304,869	334,000	1,240,306	1,239,686
Trust Company of the West (Cowen)	Equity Advisor	2,811,532	2,193,266	510,193	421,791	1,747,375
<b>Total Equity Advisor Compensation</b>		<b>\$18,931,430</b>	<b>\$29,405,069</b>	<b>\$21,681,247</b>	<b>\$20,394,759</b>	<b>\$12,110,691</b>
<b>Fixed Income Investment Advisory Services</b>						
Blackrock Financial Management	Fixed Income Advisor	1,564,472	1,536,082	1,455,319	1,628,201	889,137
J. P. Morgan Investment Management	Fixed Income Advisor	1,040,985	638,895	1,006,786	688,394	1,031,440
Lazard Freres & Co.	Fixed Income Advisor	-	-	-	669,697	51,555
Loomis Sayles & Co., Inc.	Fixed Income Advisor	349,996	402,555	485,885	475,810	478,736
Mitchell Hutchins Institutional Inv.	Fixed Income Advisor	-	-	433,022	591,975	680,825
Oaktree Capital Management	Fixed Income Advisor	3,972,291	4,459,895	2,731,678	2,633,017	2,065,669
Pacific Investment Management Co.	Fixed Income Advisor	-	-	-	-	70,801
Phoenix Investment Counsel	Fixed Income Advisor	548,544	547,956	531,553	531,955	548,309
Spectrum Asset Management	Fixed Income Advisor	-	-	-	5,415	118,295
State Street Global Advisors	Fixed Income Advisor	595,189	577,503	544,200	492,115	425,369
W. R. Huff Asset Management	Fixed Income Advisor	220,244	259,026	394,261	968,932	716,820
Wellington Asset Management	Fixed Income Advisor	1,020,074	1,016,323	877,447	1,077,393	668,428
Western Asset Management	Fixed Income Advisor	1,394,515	1,122,126	1,098,081	1,089,776	1,132,390
<b>Total Fixed Income Advisor Compensation</b>		<b>\$10,706,310</b>	<b>\$10,560,361</b>	<b>\$9,558,232</b>	<b>\$10,852,680</b>	<b>\$8,877,774</b>
<b>Cash Reserve Account Advisory Services</b>						
State Street Global Advisors	Cash Rsvr Acct Advisor	337,930	279,877	287,159	260,341	286,102
<b>Total Cash Reserve Account Advisor Compensation</b>		<b>\$337,930</b>	<b>\$279,877</b>	<b>\$287,159</b>	<b>\$260,341</b>	<b>\$286,102</b>
<b>International Equity Investment Advisory Services</b>						
DSI International Management	Intrntl Equity Advisor	387,630	288,440	190,729	515,452	152,603
Grantham, Mayo, Van Otterloo & Co.	Intrntl Equity Advisor	5,272,027	5,278,524	1,789,666	1,532,995	1,304,471
Morgan Stanley Asset Management	Intrntl Equity Advisor	7,934,234	3,549,750	1,541,202	-	7,443,284
Pictet International Management	Intrntl Equity Advisor	399,250	370,878	507,752	2,567,976	1,242,165
Salomon Smith Barney Capital Mgmt	Intrntl Equity Advisor	139,644	179,468	1,026,401	130,198	771,598
State Street Global Advisors	Intrntl Equity Advisor	389,283	457,766	596,450	557,803	519,305
<b>Total International Equity Advisor Compensation</b>		<b>\$14,522,068</b>	<b>\$10,124,826</b>	<b>\$5,652,200</b>	<b>\$5,304,424</b>	<b>\$11,433,426</b>
<b>Real Estate Investment Advisory Services <sup>(2)</sup></b>						
AEW Capital Management, L.P.	Real Estate Advisor	128,528	96,396	142,277	408,780	559,893
AEW Partners III, LP	Real Estate Advisor	841,315	1,165,214	2,651,532	-	-
Apollo Real Estate Investment Fund III	Real Estate Advisor	915,423	605,997	933,662	933,661	-
CIGNA/TimeSquare Real Estate Investors	Real Estate Advisor	11,921	8,083	-	101,942	110,071
PSI Institutional Realty Associates, Inc.	Real Estate Advisor	-	-	-	-	313,043
The RREEF Funds	Real Estate Advisor	-	-	-	23,435	46,869
Sentinel Real Estate Corporation	Real Estate Advisor	-	-	-	30,922	284,719
Wachovia Bank of Georgia, N.A.	Real Estate Advisor	161,884	182,301	148,362	130,556	92,422
Westport Senior Living Fund	Real Estate Advisor	1,800,000	1,800,000	1,800,000	1,350,000	-
<b>Total Real Estate Advisor Compensation</b>		<b>\$3,859,071</b>	<b>\$3,857,991</b>	<b>\$5,675,833</b>	<b>\$2,979,296</b>	<b>\$1,407,017</b>



**CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS**

**SCHEDULE OF INVESTMENT ADVISORS AND FEES IN EXCESS OF \$5,000<sup>(1)</sup>  
FOR PERIODS ENDED JUNE 30 (Continued)**

Name of Firm	Description of Services	Aggregate Compensation Paid in Fiscal Year:				
		2003	2002	2001	2000	1999
<b>Commercial Mortgage Investment Advisory Services <sup>(2)</sup></b>						
AEW Capital Management, L.P.	Comm Mortgage Advisor	417,400	442,777	566,633	763,333	808,313
<b>Total Commercial Mortgage Advisor Compensation</b>		<b>\$417,400</b>	<b>\$442,777</b>	<b>\$566,633</b>	<b>\$763,333</b>	<b>\$808,313</b>
<b>Private Investment Advisory Services <sup>(2)</sup></b>						
AIG Global Emerging Mkts Fund LP	Private Inv Advisor	1,876,712	2,500,000	2,496,557	2,503,443	-
Blackstone Capital Partners III LP	Private Inv Advisor	111,459	299,279	287,977	88,541	246,196
Carlyle Asia Partners LP	Private Inv Advisor	1,500,000	500,000	898,690	1,500,000	-
Carlyle European Partners LP	Private Inv Advisor	1,523,965	1,330,240	1,435,628	1,674,004	2,971,945
Compass European Partners LP	Private Inv Advisor	2,664,509	2,132,547	1,816,411	727,363	-
Conning Insurance Capital Fund V LP	Private Inv Advisor	-	-	-	250,000	-
Cresendo World Fund LLC	Private Inv Advisor	-	-	400,000	400,000	-
Crossroads Constitution Fund LP	Private Inv Advisor	-	-	-	1,361,250	2,722,500
CT Greene Ventures LP	Private Inv Advisor	5,500	375,000	375,000	375,000	-
DLJ Merchant Banking Fund II LP	Private Inv Advisor	709,948	502,725	850,758	1,089,908	1,125,000
Forstmann Little & Company	Private Inv Advisor	410,644	753,337	2,650,000	2,416,667	1,950,000
Garmark Partners LP	Private Inv Advisor	977,298	957,708	726,059	1,020,360	-
Gilbert Global Equity Partners LP	Private Inv Advisor	2,250,000	2,250,000	2,250,000	2,250,000	-
Goldman Sachs Private Equity Fund LP	Private Inv Advisor	552,972	995,037	1,000,000	696,531	-
Green Equity III LP	Private Inv Advisor	204,303	122,619	84,989	329,907	-
Greenwich Street Capital Partners II LP	Private Inv Advisor	783,424	381,069	784,121	371,517	875,000
Hicks Muse Tate & Furst Equity Fund III LP	Private Inv Advisor	-	-	-	469,788	-
Kelso Investment Associates VI LP	Private Inv Advisor	623,856	626,046	576,523	594,158	-
Keystone Ventures V LP	Private Inv Advisor	-	-	-	402,725	-
KKR 1996 Fund LP	Private Inv Advisor	-	411,808	427,373	401,764	491,108
KKR Millenium Fund LP	Private Inv Advisor	1,202,159	-	-	-	-
Lexington Capital Partners II LP	Private Inv Advisor	-	-	-	57,060	-
Pioneer Venture Associates LP	Private Inv Advisor	494,888	162,954	148,115	603,281	-
SCP Private Equity Fund LP	Private Inv Advisor	912,661	671,456	1,063,009	718,750	-
Shawmut Capital Partners LP	Private Inv Advisor	1,640,625	984,375	1,312,500	1,312,500	-
SW Pelham Fund LP	Private Inv Advisor	150,000	750,000	750,000	562,500	-
Thayer Equity Investors IV LP	Private Inv Advisor	898,189	833,101	805,946	835,341	-
THE Equity Advisors IV LLC	Private Inv Advisor	278,114	-	-	384,897	554,041
Triumph Connecticut LP	Private Inv Advisor	191,212	380,931	253,238	101,476	-
Triumph Partners III LP	Private Inv Advisor	576,721	1,712,341	2,829,409	2,681,301	-
Veritas Capital Fund LP	Private Inv Advisor	819,982	612,500	1,362,162	2,190,279	-
Wellspring Capital Partners II LP	Private Inv Advisor	693,423	1,000,000	1,000,000	1,000,000	-
Wellspring Capital Partners III LP	Private Inv Advisor	1,000,000	-	-	-	-
Woodside Capital Management LLC	Private Inv Advisor	-	6,219	291,767	-	-
<b>Total Private Investment Advisor Compensation</b>		<b>\$23,052,564</b>	<b>\$21,251,292</b>	<b>\$26,876,232</b>	<b>\$29,370,311</b>	<b>\$10,935,790</b>
<b>TOTAL COMPENSATION TO INVESTMENT ADVISORS</b>		<b>\$71,826,773</b>	<b>\$75,922,193</b>	<b>\$70,297,536</b>	<b>\$69,925,144</b>	<b>\$45,859,113</b>
<b>CUSTODY SERVICES</b>						
State Street Bank & Trust	Custody of Assets	584,990	950,955	1,365,200	1,322,500	1,514,727
<b>TOTAL CUSTODY SERVICES COMPENSATION</b>		<b>\$584,990</b>	<b>\$950,955</b>	<b>\$1,365,200</b>	<b>\$1,322,500</b>	<b>\$1,514,727</b>

(1) Expenses are presented on a cash basis.

(2) Alternative Investment Management fees for the Private Investment Fund and the Real Estate Fund include capitalized fees and expensed fees. Capitalized fees are part of the cost of the investment and become a component of unrealized gain(loss). Capitalized fees are disclosed in Note 1 of the Combined Investment Funds Financial Statements. Expensed fees which are not part of the cost of the investment are recorded in the Statement of Operations. Not included in the above amounts are those amounts that are netted. Netted amounts include credits and fees paid out of cash on hand at the partnership level. Netted amounts are disclosed in Note 1 of the Combined Investment Funds Financial Statements.



**CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS**

**SCHEDULE OF BROKERAGE COMMISSIONS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Broker Name	\$ Commission	Shares/ Par Value	Avg Comm	Broker Name	\$ Commission	Shares/ Par Value	Avg Comm
ABEL NOSER CORPORATION	3,099.20	101,800.00	0.030	CAZENOVE	1,122.94	164,800.00	0.007
ABG SECURITIES	20,832.92	1,332,063.00	0.016	CAZENOVE + CO	20,566.14	2,001,136.00	0.010
ABG SUNDAL COLLIER LTD	70.33	3,302.00	0.021	CAZENOVE + CO LTD	1,909.03	47,800.00	0.040
ABG SUNDAL COLLIER NORGE ASA	1,541.78	34,800.00	0.044	CAZENOVE + CO.	7,031.32	1,106,461.00	0.006
ABN AMRO	11,460.22	317,400.00	0.036	CAZENOVE ASIA LIMITED	1,504.57	764,000.00	0.002
ABN AMRO ASIA LIMITED	9,413.05	4,443,040.00	0.002	CAZENOVE INCORPORATED	2,168.84	192,200.00	0.011
ABN AMRO EQUITIES (UK) LTD	17,947.05	1,560,184.00	0.012	CAZENOVE SOUTH SFRICA (PTY) LIMITED	251.19	30,000.00	0.008
ABN AMRO EQUITIES (UK) LTD LONDON	28,460.99	47,582,325.00	0.001	CDC LABOUCHERE SECURITIES SERVICES	2,221.35	23,080.00	0.096
ABN AMRO SECURITIES (USA) INC	407.85	24,100.00	0.017	CHARLES SCHWAB CO INC	35,659.84	1,253,744.00	0.028
ABN AMRO SECURITIES LLC	467.59	301,100.00	0.002	CHASE MANHATTAN BANK	10,058.18	6,539,200.00	0.002
ACCIONES Y VALORES DE MEXICO	1,108.32	141,100.00	0.008	CHEVREUX INTERNATIONAL	2,827.39	174,290.00	0.016
ACF INTERNATIONAL	237.12	7,000.00	0.034	CHINA SECURITIES CO LTD	2,984.64	2,536,610.00	0.001
ADAMS HARKNESS + HILL,INC	17,439.00	427,900.00	0.041	CI NORDICSECURITIES AB	1,749.88	16,150.00	0.108
ADVEST INC	44,763.00	1,112,500.00	0.040	CIBC WORLD MARKETS CORP	35,467.74	830,838.00	0.043
AMERICAS/DEUTSCHE BANK AG LONDON	187.20	5,900.00	0.032	CITATION GROUP	2,635.00	52,700.00	0.050
ARCHIPELAGO BCC CAPITAL CLEAR	14,243.20	740,717.00	0.019	CITIBANK,N.A.	152.50	6,550.00	0.023
ARNHOLD S BLEICHROEDER INC	1,094.00	33,910.00	0.032	CITIGROUP	24.81	6,800.00	0.004
ATA SECURITIES INC. (ISTANBUL)	1,650.54	34,841,000.00	0.000	CITIGROUPGLOBAL MARKETS ASIA LIMITED	6,675.26	2,024,190.00	0.003
AUERBACH GRAYSON	1,485.77	11,867.00	0.125	CITIGROUPGLOBAL MARKETS INC	266,813.38	9,936,066.00	0.027
AUERBACH GRAYSON AND COMPANY	4,364.41	6,372,160.00	0.001	CITIGROUPGLOBAL MARKETS INC/SALOMON BRO	6,180.65	579,520.00	0.011
AVALON RESEARCH GROUP INC	2,360.00	47,200.00	0.050	CITIGROUPGLOBAL MARKETS LIMITED	34,536.57	207,594,782.00	0.000
BAIRD, ROBERT W., & COMPANY INCORPORATED	993.00	98,800.00	0.010	COLLINS STEWART	3,555.63	359,800.00	0.010
BANC AMERICA SECURITY LLC MONTGOMERY DIV	121,503.85	2,644,635.00	0.046	COLLINS STEWART + CO	1,563.75	115,200.00	0.014
BANC OF AMERICA SECS LTD LONDO	7,113.92	373,913.00	0.019	COMMERCE CAPITAL MARKETS	453.00	15,100.00	0.030
BANC OF AMERICA SECURITIES LLC	68,466.72	1,704,486.00	0.040	COMMERZBANK AG	2,294.06	9,161.00	0.250
BANC/AMERICA SECUR.LLC MONTGOMEY DIV	24,095.04	483,426.00	0.050	COMMERZBANK CAPITAL MARKETS CORP	411.33	78,000.00	0.005
BANCO BBA	132.71	22,100.00	0.006	COMMERZBANK CAPITAL MARKETS CORPORATION	2,592.11	24,100.00	0.108
BANCO BBACREDITANSTALT S.A.	2,024.71	53,006,049.00	0.000	CORRESPONDENT SERVICES, INC	22,065.28	567,354.00	0.039
BANCO BILBAO VIZCAYA	4,166.19	129,387.00	0.032	CREDIT AGRICOLE INDOSUEZ	4,466.05	202,683.00	0.022
BANCO ICATU	608.39	26,816,000.00	0.000	CREDIT AGRICOLE INDOSUEZ CHEUVREUX	11,963.38	244,604.00	0.049
BANCO ICATU S.A.	267.15	10,653,000.00	0.000	CREDIT LYONNAIS	36,509.16	22,370,049.00	0.002
BANCO PACTUAL S.A.	1,259.95	23,679,000.00	0.000	CREDIT LYONNAIS SECS	4,833.70	478,000.00	0.010
BANCO SANTANDER CENTRAL HISPANO	1,851.62	169,718,000.00	0.000	CREDIT LYONNAIS SECURITIES	1,931.30	465,900.00	0.004
BANCO SANTANDER CENTRAL HISPANO SA	293.38	5,720,400.00	0.000	CREDIT LYONNAIS SECURITIES (USA) INC	22,118.19	9,422,370.00	0.002
BANCO SANTANDER DE NEGOCIOS	285.12	154,400.00	0.002	CREDIT SUISSE FIRST BOSTON	19,610.93	7,121,220.00	0.003
BANCOVAL S.A	4,881.79	177,500.00	0.028	CREDIT SUISSE FIRST BOSTON CORPORATION	495,574.09	16,185,004.00	0.031
BANK AM BELLEVUE	3,509.26	21,538.00	0.163	CREDIT SUISSE FIRST BOSTON EQUITIES (EUR)	1,011.22	1,174,799.00	0.001
BANK INSINGER DE BEAUFORT N V	1,839.24	26,900.00	0.068	CREDIT SUISSE FIRST BOSTON LONDON	87,310.33	365,464,765.00	0.000
BANK OF AMERICA, N.A. LONDON	16,816.86	609,659.00	0.028	CREDIT USA	2,422.54	57,940.00	0.042
BANK OF CHINA GROUP SECURITIES LTD	429.21	594,000.00	0.001	CS FIRST BOSTON (HONG KONG) LIMITED	81,701.99	18,445,947.00	0.004
BANK OF NEW YORK (THE) UBS LIMITED	1,344.00	49,600.00	0.027	DAIWA SECURITIES SB CAPITAL MA	1,755.17	192,000.00	0.009
BANK OF NEW YORK BRUSSELS	746.06	25,000.00	0.030	DAIWA SECURITIES AMERICA INC	33,086.25	1,886,603.00	0.018
BANQUE NATIONALE DE PARIS, LON	1,006.38	76,600.00	0.013	DAIWA SECURITIES CO LTD	1,185.93	44,500.00	0.027
BARING SECURITIES (HONG KONG)	2,163.50	1,033,985.00	0.002	DBS BANK LTD. SINGAPORE	448.56	130,000.00	0.003
BARNARD JACOBS MELLETT AND CO (PTY)	7,563.18	472,708.00	0.016	DBS SECURITIES (S) PTE LTD.	2,276.18	239,000.00	0.010
BAYERISCHE HYPO- UND VEREINSBANK MUNICH	6,506.94	194,397.00	0.033	DBS VICKERS SECS PTE LTD	1,485.14	54,000.00	0.028
BEAR STEARNS + CO INC	98,827.66	2,557,712.00	0.039	DBTC/MORGAN GRENFELL & CO. LONDON	2,198.73	72,880.00	0.030
BEAR STEARNS ASIA LTD	415.36	148,994.00	0.003	DEN DANSKE BANK	2,174.73	26,773.00	0.081
BEAR STEARNS INTERNATIONAL TRADING	3,048.32	5,197,700.00	0.001	DEUTCHE BANK	744.67	17,100,000.00	0.000
BEAR STEARNS SECURITIES CORP	31,429.24	21,435,071.00	0.001	DEUTSCHE ALEX BROWN LONDON	213.84	1,599,380.00	0.000
BENDER MENKUL DEGERLER A.S.	2,640.41	245,575,000.00	0.000	DEUTSCHE ASIA AND PARTNERS SECURITIES	16,696.08	1,609,748.00	0.010
BENDER SECS ISTANBUL	2,856.76	106,511,000.00	0.000	DEUTSCHE BANC ALEX BROWN	1,634.26	733,564.00	0.002
BENDER SECURITIES	660.32	58,099,000.00	0.000	DEUTSCHE BANK AG LONDON	51,496.09	66,091,079.00	0.001
BEREAN CAPITAL, INC. 2	22,979.00	459,580.00	0.050	DEUTSCHE BANK SECS	269.46	65,000.00	0.004
BHF SECURITIES CORPORATION	2,429.57	2,668.00	0.911	DEUTSCHE BANK SECURITIES	3,742.05	100,500.00	0.037
BLAYLOCK PARTNERS	903.00	30,500.00	0.030	DEUTSCHE BANK SECURITIES INC	246,774.00	90,163,943.00	0.003
BMO NESBITT BURNS CORP	6,644.00	166,100.00	0.040	DEUTSCHE BANK SECURITIES, INC	46,396.38	3,932,125.00	0.012
BNP PARIBUS SECURITIES CORP	48.00	20,200.00	0.002	DEUTSCHE BANK TRUST CO	635.32	15,883.00	0.040
BNP PRIMEPEREGRINE	6,781.44	7,467,800.00	0.001	DEUTSCHE BANK TRUST COMPANY AMERICAS	1,083.18	32,000.00	0.034
BNY BROKERAGE INC	4,389.61	102,431.00	0.043	DEUTSCHE MORGAN GRENFELL INC.	20,366.43	1,865,249.00	0.011
BNY CLEARING SERVICES LLC	166.85	3,337.00	0.050	DEUTSCHE SECURITIES ASIA LIMITED	38,993.88	11,599,744.00	0.003
BNY CLEARING SERVICES LLC (BNY)	2,487.00	53,200.00	0.047	DEXIA BANK S A	1,732.35	30,784.00	0.056
BNY ING BANK NV LONDON BRANCH	369.37	51,661.00	0.007	DIVIDEND REINVEST	3,656.75	173,196.00	0.021
BNYESI TRANSITION MANAGEMENT	515.00	10,300.00	0.050	DONALDSON, LUFKIN & JENRETTE SECURITIES	36,515.78	850,937.00	0.043
BRIDGE TRADING	37,358.10	794,842.00	0.047	DONGWON SECURITIES	1,133.52	78,320.00	0.014
BROADCORTCAPITAL (THRU ML)	7,874.40	158,548.00	0.050	DOWLING &PARTNERS SECURITIES, LLC.	12,621.15	267,463.00	0.047
B-TRADE SERVICES LLC	34,456.89	1,613,297.00	0.021	DRESDNER	7,400.18	79,700.00	0.093
BUCKINGHAM RESEARCH GROUP	990.00	19,800.00	0.050	DRESDNER ABNK AG	2,079.81	7,000.00	0.297
C. L. GLAZER & COMPANY, INC.	64,661.15	1,368,521.00	0.047	DRESDNER KLEINWORT BENSON NORTH AMERICA	34,337.41	715,054.00	0.048
CAIS INC CHEUVREUX DIV NY	572.35	15,000.00	0.038	DRESDNER KLEINWORT BENSON SECS	115.03	6,000.00	0.019
CANADIAN IMPERIAL BANK OF COMMERCE	903.96	65,000.00	0.014	DRESDNER KLEINWORT BENSONS	10,730.95	868,300.00	0.012
CANTOR FITZGERALD + CO.	193,810.34	5,313,880.00	0.036	EDWARDS AG SONS INC	7,960.00	165,000.00	0.048
CAPEL, JAMES HSBC SECURITIES INC.	1,508.00	37,700.00	0.040	ENGELMANSECURITIES	4,040.50	88,000.00	0.046
CAPITAL INSTITUTIONAL SERVICES	95,446.00	1,910,920.00	0.050	ENSKILDA SECURITIES AB	27,277.63	1,028,621.00	0.027
CAPITAL SECURITIES CORP.	33.32	17,000.00	0.002	EXANE GENEVE	719.66	4,500.00	0.160
CARNEGIE FONDKOMMISSION	4,255.50	142,400.00	0.030	EXANE INC	9,669.79	169,355.00	0.057
CARNEGIE INT'L LND	569.34	35,400.00	0.016	EXANE S.A.	9,370.66	247,430.00	0.038

## CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS

SCHEDULE OF BROKERAGE COMMISSIONS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Broker Name	\$ Commission	Shares/ Par Value	Avg Comm	Broker Name	\$ Commission	Shares/ Par Value	Avg Comm
F P MAGLIO + CO INC	885.00	29,500.00	0.030	JEFFERIESCOMPANY INC	149,977.66	4,131,779.00	0.036
FACTSET DATA SYSTEMS (THRU BEAR STEARNS)	113,599.40	2,292,488.00	0.050	JOHNSON RICE + CO	942.00	31,400.00	0.030
FIDELITY CAPITAL MARKETS	112,218.80	2,282,302.00	0.049	JONES & ASSOCIATES INC	99,602.40	2,489,637.00	0.040
FINANCIALBROKERAGE GROUP (FBG)	2,159.88	54,400.00	0.040	JONES + ASSOCIATES	54,154.40	1,312,350.00	0.041
FIRST ALBANY CORP.	335.00	6,700.00	0.050	JP MORGAN	1,092.07	1,133,500.00	0.001
FIRST CLEARING, LLC	1,079.50	21,590.00	0.050	JP MORGANINTERNATIONAL BANK LTD	395.77	19,000.00	0.021
FIRST OPTIONS OF CHICAGO	162.00	8,100.00	0.020	JP MORGANSECURITIES INC	8,438.93	1,612,418.00	0.005
FIRST TENNESSEE SECURITIES CORP	2,439.00	81,300.00	0.030	JP MORGANSECURITIES LIMITED	63,109.04	306,681,717.00	0.000
FIRST UNION CAPITAL MARKETS	60,305.10	1,319,792.00	0.046	JPMORGAN CHASE BANK CHEMICAL CP IPA	2,928.44	44,980,900.00	0.000
FORSYTH BARR LTD	1,163.09	123,000.00	0.009	JPMORGAN SECURITIES(ASIA PACIFIC)LTD	43,593.26	22,773,658.00	0.002
FORTIS BANK	1,814.32	20,000.00	0.091	JPP EURO SEC	694.92	16,200.00	0.043
FOX PITT KELTON INC	23,293.49	492,200.00	0.047	JPP EURO SECURITIES	4,733.03	41,000.00	0.115
FOX-PITT KELTON LTD	19,464.64	807,634.00	0.024	JULIUS BAER SECURITIES	12,416.18	581,692.00	0.021
FRANK CHARLESLY CO	602.47	162,064,000.00	0.000	KAUFMAN BROTHERS	2,700.10	54,002.00	0.050
FRIEDMAN BILLINGS + RAMSEY	50.00	1,000.00	0.050	KAY HIAN PTE LTD	1,841.70	101,100.00	0.018
FULCRUM GLOBAL PARTNERS LLC	35,231.00	772,857.00	0.046	KB SECURITIES ANTWERP	2,239.88	60,340.00	0.037
GARANTIA DTMV S/A	5,009.30	82,405,900.00	0.000	KB SECURITIES N V	978.98	5,507.00	0.178
GARBAN EQUITIES LIMITED LONDON	420.52	147,400.00	0.003	KEEFE BRUYETTE + WOODS INC	33,078.13	728,603.00	0.045
GERARD KLAUER MATTISON + CO	1,752.00	38,600.00	0.045	KIMBALL & CROSS	159.56	9,000.00	0.018
GLOBAL SECURITIES INC. (ISTANBUL)	10,853.57	738,714,833.00	0.000	KING, CL, & ASSOCIATES, INC	347,285.50	7,520,350.00	0.046
GOLDMAN SACHS + CO	498,827.28	533,686,064.00	0.001	KLEINWORTBENSON SECURITIES LIMITED	28,071.59	1,109,487.00	0.025
GOLDMAN SACHS AND COMPANY	44,037.07	17,073,060.00	0.003	KNIGHT SECURITIES	10,738.95	389,064.00	0.028
GOLDMAN SACHS INTERNATIONAL LONDON	59,242.39	2,270,920.00	0.026	KOKUSAI SECURITIES CO., LTD	1,057.93	168,000.00	0.006
GOLDMAN SACHS INTL LTD	4,091.98	74,500.00	0.055	KV EXECUTION SERVICES LLC	858.00	28,600.00	0.030
GOODBODY STOCKBROKERS	969.50	300,000.00	0.003	LA BRANCHE FINANCIAL #2	28,851.00	961,700.00	0.030
GREENTREEBROKERAGE SERVICES INC	450.00	9,000.00	0.050	LA BRANCHE FINANCIAL SERVICES INC	192.60	6,420.00	0.030
GRISWOLD COMPANY	342.00	11,400.00	0.030	LAZARD FRERES & CO.	9,682.00	238,700.00	0.041
GUZMAN + CO	2,340.10	58,465.00	0.040	LEERINK SWANN AND COMPANY	42.00	1,400.00	0.030
HANJIN INVESTMENT AND SECURITIES	3,330.77	86,100.00	0.039	LEGG MASON WOOD WALKER INC	14,325.00	312,950.00	0.046
HC ISTANBUL	8,767.31	764,386,900.00	0.000	LEHMAN BROTHERS INC	43,590.23	2,217,345.00	0.020
HC ISTANBUL MENKUL DEGERL	4,480.58	503,370,000.00	0.000	LEHMAN BROTHERS ASIA LTD	470.68	132,000.00	0.004
HEFLIN + CO., LLC	74,915.64	1,612,505.00	0.046	LEHMAN BROTHERS INC	344,103.64	152,760,920.00	0.002
HENDERSONCROSTHWAITE	309.38	12,900.00	0.024	LEHMAN BROTHERS INTERNATIONAL (EUROPE)	81,697.95	6,186,179.00	0.013
HENDERSONCROSTHWAITE LIMITED	1,211.91	81,400.00	0.015	LEHMAN BROTHERS JAPAN INC, TOKYO	1,833.12	302,125.00	0.006
HOARE GOVETT SECURITIES LTD	18,834.04	8,106,370.00	0.002	LEHMAN BROTHERS SECS (ASIA)	386.15	1,334,000.00	0.000
HOENIG (FAR EAST) LIMITED	20,994.57	7,249,760.00	0.003	LIQUIDNETINC	43,985.88	1,435,223.00	0.031
HOENIG + COMPANY INC	750.00	15,000.00	0.050	LOMBARD ODIER + CIE	3,344.35	6,400.00	0.523
HSBC	5,292.81	75,000.00	0.071	LOOP CAPITAL MKTS LLC	8,951.12	236,979.00	0.038
HSBC BANKPLC	10,011.60	112,414,730.00	0.000	MACQUARIEEQUITIES (USA) INC	991.33	110,428.00	0.009
HSBC INVESTMENT BANK PLC	41,228.81	167,630,684.00	0.000	MACQUARIEEQUITIES LIMITED (SYDNEY)	525.93	43,948.00	0.012
HSBC SECURITIES (SINGAPORE) PTE LTD	24,102.34	8,344,195.00	0.003	MACQUARIEEQUITIES LTD	1,493.83	251,000.00	0.006
HSBC SECURITIES INC	3,673.30	6,360.00	0.578	MACQUARIES EQUITIES MUNICH	686.78	58,052.00	0.012
HSBC SECURITIES INC (JAMES CAPEL)	5,642.54	237,273.00	0.024	MCDONALDAND COMPANY SECURITIES, INC.	5,502.50	122,200.00	0.045
HSBC SECURITIES(ASIA)LIMITED	1,263.03	100,000.00	0.013	MERRILL LYNCH PEIRCE FENNER + SMITH	1,037.39	3,605,400.00	0.000
HVB CAPITAL MARKETS INC	3,026.03	48,000.00	0.063	MERRILL LYNCH	1,840.81	43,000.00	0.043
HVB CAPITOL	197.55	11,000.00	0.018	MERRILL LYNCH + CO INC	19,937.32	3,963,490.00	0.005
ICATU	111.82	451,609.00	0.000	MERRILL LYNCH FAR EAST LTD	24,668.86	6,426,073.00	0.004
ICATU BRAZIL	59.46	247,000.00	0.000	MERRILL LYNCH INTERNATIONAL	134,506.82	1,554,255,946.00	0.000
ICATU DTMV LTDA	265.26	1,016,000.00	0.000	MERRILL LYNCH PEIRCE, FENNER AND S	2,601.55	2,542,600.00	0.001
IMI BANK LUX SA	7,493.02	310,000.00	0.024	MERRILL LYNCH PIERCE FENNER + SMITH	544,597.54	19,353,498.00	0.028
ING BANK N V	2,736.45	157,700.00	0.017	MERRILL LYNCH PROFESSIONAL CLEARING CORP	984.00	24,200.00	0.041
ING BARING SECURITIES	26,581.87	319,644,160.00	0.000	MERRILLYNCH PIERCE FENNER + SMITH ROPE	6,158.81	374,400.00	0.016
ING BARING SECURITIES (SINGAPORE)	56,188.49	14,857,250.00	0.004	MERRION	170.53	9,000.00	0.019
ING BARINGS CORP	4,542.91	272,300.00	0.017	MERRION CAPITAL GROUP	260.48	14,108.00	0.018
ING BARINGS SEC LTD	3,737.67	511,650.00	0.007	MIDWEST RESEARCH SECURITIES	6,063.68	151,592.00	0.040
ING SECURITIES	1,161.18	188,000.00	0.006	MIZUHO CORP BANK LTD	3,733.30	223,100.00	0.017
INSTINET	127,579.11	7,506,556.00	0.017	MIZUHO SEC	1,981.90	42,900.00	0.046
INSTINET CLEARING SERVICES INC	14.00	700.00	0.020	MIZUHO SECURITIES USA INC	1,613.40	32,900.00	0.049
INSTINET INVESTMENT SERVICES LIMITED	7,283.40	285,951.00	0.025	MONTROSE SECURITIES EQUITIES	5,728.00	139,900.00	0.041
INSTINET PACIFIC LIMITED	15,866.76	8,861,190.00	0.002	MOORS + CABOT INC	56,341.25	1,137,789.00	0.050
INSTINET U.K. LTD	4,241.24	660,382.00	0.006	MORGAN GRENFELL AND CO LIMITED	1,121.90	79,500.00	0.014
INTERMONTE SEC SIM SPA	36,693.70	1,522,516.00	0.024	MORGAN GRENFELL AND CO LIMITED	56,350.19	479,308,744.00	0.000
INVESTEC BANK LTD	2,298.08	204,800.00	0.011	MORGAN GRENFELL INV FUND MANAGERS	1,581.03	112,064.00	0.014
INVESTEC HENDERSON CROSTHWAITE	1,462.52	37,800.00	0.039	MORGAN GRENFELL NEW YORK	192.53	18,000.00	0.011
INVESTEC SECS	2,147.05	262,790.00	0.008	MORGAN STANLEY	1,975.59	226,300.00	0.009
INVESTEC SECURITIES	5,047.91	849,710.00	0.006	MORGAN STANLEY AND CO. INTERNATIONAL	4,812.60	89,264,400.00	0.000
INVESTEC SECURITIES LTD	2,237.35	1,175,200.00	0.002	MORGAN STANLEY CO INCORPORATED	499,751.52	26,425,121.00	0.019
INVESTMENT TECHNOLOGY GROUP INC.	1,229,468.01	44,352,600.00	0.028	MORGAN STANLEY SECURITIES LIMITED	1,990.37	474,799.00	0.004
INVESTMENT TECHNOLOGY GROUP LTD	1,410.09	443,732.00	0.003	NBCN CLEARING INC.	918.00	30,600.00	0.030
ISI GROUPINC	52,696.95	1,200,199.00	0.044	NCB STOCKBROKERS	1,172.23	36,000.00	0.033
ISLAND EXECUTION SERVICES LLC	121.10	12,110.00	0.010	NCB STOCKBROKERS LTD	2,711.20	144,200.00	0.019
J B WERE AND SON	5,287.89	612,623.00	0.009	NEEDHAM +COMPANY	8,762.50	194,650.00	0.045
J B WERE AND SON INC.	28,108.30	5,087,560.00	0.006	NESBITT BURNS	40,419.12	1,601,864.00	0.025
J P MORGAN SECURITIES INC	94,642.42	3,817,535.00	0.025	NEUBERGERAND BERMAN	83,334.08	2,271,379.00	0.037
JACKSON PARTNERS + ASSOCIATES INC	2,048.00	79,100.00	0.026	NOMURA BANK	546.81	64,000.00	0.009
JACKSON SECURITIES	13,443.65	268,873.00	0.050	NOMURA INTERNATIONAL (HONG KONG) LTD	21,915.53	1,731,221.00	0.013
JANNEY MONTGOMERY, SCOTT INC	8,143.00	167,700.00	0.049	NOMURA INTERNATIONAL PLC	5,128.31	165,500.00	0.031

**CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS**

**SCHEDULE OF BROKERAGE COMMISSIONS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<b>Broker Name</b>	<b>\$ Commission</b>	<b>Shares/ Par Value</b>	<b>Avg Comm</b>	<b>Broker Name</b>	<b>\$ Commission</b>	<b>Shares/ Par Value</b>	<b>Avg Comm</b>
NOMURA SECURITIES CO LTD	209.64	24,000.00	0.009	UBS AG (FORMERLY SWISS BANK CO) ZURICH	168.47	8,000.00	0.021
NOMURA SECURITIES CO., LTD.	1,180.44	125,000.00	0.009	UBS AG LONDON	107,128.42	1,025,217,383.00	0.000
NOMURA SECURITIES INTERNATIONAL INC	38,171.73	1,952,114.00	0.020	UBS WARBURG	629.35	17,100.00	0.037
NOMURA SECURITIES TOKYO	1,446.43	19,000.00	0.076	UBS WARBURG LLC	1,007,077.57	29,527,134.00	0.034
NORDEA BANK DENMARK A/S	4,095.16	106,000.00	0.039	USCC/SANTANDER	11,679.76	732,198.00	0.016
NORDIC PARTNERS	4,854.19	164,600.00	0.029	VONTOBEL SECURITIES	1,042.47	7,000.00	0.149
NORDIC PARTNERS INC NY, NY	2,709.82	100,000.00	0.027	WACHOVIA SECURITIES LLC	18,156.34	397,065.00	0.046
NUTMEG SECURITIES	127,736.93	2,722,979.00	0.047	WARBURG DILLION READ (ASIA) LTD	69,647.73	21,706,634.00	0.003
O NEIL, WILLIAM AND CO. INC/BCC CLRG	2,180.00	43,600.00	0.050	WARBURG FORMERLY S G WARBURG SECS	1,437.88	53,587,084.00	0.000
ODD LOT SALE	5.05	64.00	0.079	WAVE SECURITIES LLC	160.00	12,400.00	0.013
ODDO FINANCE	1,915.62	16,500.00	0.116	WEEDEN + CO.	172,455.51	4,189,076.00	0.041
ORMES CAPITAL MARKETS INC	24,845.00	510,100.00	0.049	WEEDEN+COLP FBO INSEARCH ASSO	47,720.00	963,500.00	0.050
OYAK MENKUL DEGERELER A S	4,140.72	468,478,000.00	0.000	WELLS FARGO INVT LLC	6,091.45	121,829.00	0.050
PACIFIC AMERICAN SECURITIES, LLC	3,918.50	82,600.00	0.047	WELLS FARGO VAN KASPER LLC	1,155.00	23,100.00	0.050
PARETO FONDS	4,502.62	253,698.00	0.018	WESTLB SECURITIES PACIFIC LIMITED	482.02	128,000.00	0.004
PCS SECURITIES INC	6,179.15	123,583.00	0.050	WESTMINSTER RESEARCH ASSOCIATE	50,726.60	1,014,532.00	0.050
PENSION FINANCIAL SERVICES INC	390.00	112,339.00	0.003	WILLIAM BLAIR & COMPANY, L.L.C	2,139.00	71,300.00	0.030
PERCIVAL FINANCIAL PARTNERS, LTD	7,960.00	159,200.00	0.050	WILLIAMS CAPITAL GROUP(THE)	45,306.00	946,200.00	0.048
PERSHING DIV OF DLJ	246.00	26,720.00	0.009	WIT SOUNDVIEW CORP	42,491.50	1,003,100.00	0.042
PERSHING DIVISION OF DONALDSON LUFKIN	2,629.50	58,600.00	0.045	YATIRIN FINANSMAN	296.39	32,728,000.00	0.000
PERSHING LLC	2,565.05	56,401.00	0.045	YORK SECURITIES INC	665.67	18,000.00	0.037
PERSHING SECURITIES LIMITED	4,221.38	560,736.00	0.008	YORKTON SECURITIES INC	1,611.57	47,200.00	0.034
PETRIE PARKMAN + CO	4,485.00	89,700.00	0.050	YORKTON SECURITIES INC.	1,067.86	33,500.00	0.032
PICTET AND CIE	4,927.84	50,584.00	0.097	<b>Total</b>	<b>12,056,247.98</b>		
PICTET OVERSEAS INC	779.54	7,500.00	0.104				
POSIT	16.00	800.00	0.020				
PRUDENTIAL SECURITIES INCORPORATED	94,369.58	3,031,281.00	0.031				
PULSE TRADING LLC	21,150.61	1,015,151.00	0.021				
RABO SECURITIES NV	4,743.69	89,762.00	0.053				
RBC DAIN RAUSCHER INC	37,958.80	825,800.00	0.046				
REYNDERS,GRAY + COMPANY,INC	4,000.00	100,000.00	0.040				
ROBERT VAN SECURITIES	1,459.84	36,496.00	0.040				
ROCHDALE SEC CORP.(CLS THRU 443)	47,322.00	1,057,800.00	0.045				
RUSSELL FRANK SECURITIES INC	67.50	1,500.00	0.045				
SALOMAN BROS	1,966.67	2,329,800.00	0.001				
SALOMON BROS HONG KONG	31,572.50	7,582,512.00	0.004				
SALOMON BROS INC	95,874.85	455,782.00	0.210				
SALOMON BROTHERS INC	9.92	2,800.00	0.004				
SALOMON BROTHERS INC, NY	26,421.82	6,292,210.00	0.004				
SALOMON BROTHERS INTERNATIONAL	72,470.96	818,545,171.00	0.000				
SALOMON BROTHERS INTL LONDON	165.10	4,201.00	0.039				
SALOMON BROTHERS NY	576.10	3,725,900.00	0.000				
SALOMON SMITH BARNEY	5,766.53	1,000,990.00	0.006				
SALOMON SMITH BARNEY INC	505,045.22	19,213,567.00	0.026				
SALOMON SMITH BARNEY INC/SALOMON BROS.	24,585.87	2,689,842.00	0.009				
SALOMON SMITH BARNEY KOREA LTD	1,093.59	1,000.00	1.094				
SAMSUNG SECURITIES CO LTD	7,960.96	107,700.00	0.074				
SANDERS MORRIS MUNDY	3,705.00	74,100.00	0.050				
SANDLER ONEILL + PART LP	75.00	2,500.00	0.030				
SANFORD C. BERNSTEIN LTD	22,134.49	1,101,759.00	0.020				
SANFORD CBERNSTEIN CO LLC	16,034.70	463,494.00	0.035				
SANTANDERINVESTMENT SECURITIES INC	40.39	5,800.00	0.007				
SBS FINANCIAL	345.00	13,800.00	0.025				
SCOTIA CAPITAL (USA) INC	2,944.41	88,700.00	0.033				
SCOTT & STRINGFELLOW, INC	69.00	2,300.00	0.030				
SG COWEN SECURITIES CORP	29,181.60	886,792.00	0.033				
SG SECURITIES (LONDON)LTD	1,756.13	533,992.00	0.003				
SG SECURITIES SINGAPORE PTE LTD	4,859.92	1,566,500.00	0.003				
SIMMONS +COMPANY INTERNATIONAL	4,750.00	95,000.00	0.050				
SK INTERNATIONAL SECURITIES	1,190.00	23,800.00	0.050				
SPEAR, LEEDS & KELLOGG	48,770.23	1,159,270.00	0.042				
SPEAR, LEEDS & KELLOGG CAPITAL MARKETS	7,995.35	187,255.00	0.043				
SSANGYONGINVESTMENT AND SECURITIES	5,820.84	229,100.00	0.025				
STANDARD + POORS SECURITIES INC	16,199.25	326,025.00	0.050				
STATE STREET BROKERAGE SERVICES	1,947.00	99,900.00	0.019				
SUN	1,551.47	52,870.00	0.029				
SUNTRUST CAPITAL MARKETS, INC.	1,068.00	35,600.00	0.030				
SVENSKA HANDELSBANKEN	4,579.22	178,700.00	0.026				
SWISS AMERICAN SECURITIES INC	1,091.37	87,720.00	0.012				
THOMAS WEISEL PARTNERS	43,019.20	1,067,255.00	0.040				
TOKYO MITSUBISHI INTERNATIONAL PLC	1,027.20	17,800.00	0.058				
TOKYO-MITSUBISHI SECURITIES (USA)	5,101.01	612,500.00	0.008				
TOYOTA FINANCAL SERVICES	1,673.36	22,175,100.00	0.000				
TSUBASA SECURITIES	1,926.00	112,500.00	0.017				
U S BANCORP PIPER JAFFRAY INC	357.00	8,100.00	0.044				
U.S. CLEARING CORPORATION	751.00	35,300.00	0.021				
UBS AG	34,633.20	126,415,087.00	0.000				



**Statistical**  
**Section**



CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS

**TOTAL NET ASSET VALUE BY PENSION PLANS AND TRUST FUNDS  
JUNE 30, 2003**

<b>Retirement Funds</b>	<b>Net Asset Value</b>
Teachers' Retirement Fund	\$ 9,846,014,159
State Employees' Retirement Fund	6,987,179,350
Municipal Employees' Retirement Fund	1,174,440,124
State Judges' Retirement Fund	125,215,777
The Probate Court Retirement Fund	60,482,838
State's Attorneys Retirement Fund	618,719
<b>Non-retirement Trust Funds</b>	
Soldiers' Sailors' & Marines' Fund	59,336,142
Police & Firemans' Survivors' Benefit Fund	17,026,908
Connecticut Arts Endowment Fund	16,317,596
School Fund	8,565,179
Ida Eaton Cotton Fund	1,924,412
Hopemead Fund	1,812,802
Andrew Clark Fund	905,128
Agricultural College Fund	565,939
Tobacco and Health Trust Fund <sup>(1)</sup>	-
<b>TOTAL</b>	<b><u>\$18,300,405,073</u></b>

(1) Funds were distributed during fiscal year.

**CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS**

**STATEMENT OF INVESTMENT ACTIVITY BY PENSION PLAN  
FOR THE FISCAL YEAR ENDING JUNE 30, 2003**

	<b>CASH RESERVE FUND</b>	<b>MUTUAL EQUITY FUND</b>	<b>MUTUAL FIXED INCOME FUND</b>	<b>INTER- NATIONAL STOCK FUND</b>	<b>REAL ESTATE FUND</b>	<b>COMMERCIAL MORTGAGE FUND</b>	<b>PRIVATE INVESTMENT FUND</b>	<b>TOTALS</b>
<b>Teachers' Retirement Fund</b>								
Book Value at June 30, 2002	\$ 225,246,224	\$ 989,170,649	\$ 3,264,823,164	\$ 740,984,430	\$ 283,473,343	\$ 44,162,761	\$ 1,302,122,716	\$ 6,849,983,287
Market Value at June 30, 2002	\$ 225,246,224	\$ 3,648,172,461	\$ 3,475,745,867	\$ 1,215,613,428	\$ 256,762,832	\$ 39,960,180	\$ 1,245,800,884	\$ 10,107,301,878
Shares Purchased	704,071,657	-	-	-	3,542,141	-	74,277,563	781,891,361
Shares Redeemed	(614,905,514)	-	(144,905,762)	-	(12,533,731)	(3,719,762)	-	(776,064,770)
Returns of Capital	-	-	-	-	-	-	-	-
Gain/(Loss) on Shares Redeemed	-	-	13,374,309	-	(1,441,444)	(238,544)	-	11,694,321
Net Investment Income Earned	6,347,249	44,820,448	180,410,703	20,379,859	23,645,650	4,184,928	173,214,151	453,002,988
Net Investment Income Distributed	(6,347,249)	(44,820,448)	(180,410,703)	(20,379,859)	(23,645,650)	(4,184,928)	(173,214,151)	(453,002,988)
Changes in Market Value of Fund Shares	-	(38,269,347)	186,208,499	(105,162,560)	(14,297,647)	3,424,735	(310,712,311)	(278,808,630)
Market Value at June 30, 2003	\$ 314,412,366	\$ 3,609,903,114	\$ 3,530,422,912	\$ 1,110,450,868	\$ 232,032,151	\$ 39,426,609	\$ 1,009,366,137	\$ 9,846,014,159
Book Value at June 30, 2003	314,412,366	989,170,649	3,133,291,711	740,984,430	273,040,309	40,204,455	1,376,400,279	6,867,504,200
Shares Outstanding	314,412,366	5,324,972	30,544,686	5,887,525	4,033,228	537,232	15,465,345	376,205,355
Market Value per Share	\$ 1.00	\$ 677.92	\$ 115.58	\$ 188.61	\$ 57.53	\$ 73.39	\$ 65.27	
<b>State Employees' Retirement Fund</b>								
Book Value at June 30, 2002	\$ 145,879,959	\$ 702,395,453	\$ 2,309,588,281	\$ 522,189,936	\$ 199,837,330	\$ 30,936,509	\$ 915,317,215	\$ 4,826,144,683
Market Value at June 30, 2002	\$ 145,879,959	\$ 2,524,497,173	\$ 2,476,160,338	\$ 858,264,653	\$ 181,346,385	\$ 28,142,769	\$ 876,217,719	\$ 7,090,508,997
Shares Purchased	370,798,960	-	-	-	2,501,743	-	52,242,150	425,542,853
Shares Redeemed	(228,214,961)	-	(103,232,490)	-	(8,852,321)	(2,619,718)	-	(342,919,490)
Returns of Capital	-	-	-	-	-	-	-	-
Gain/(Loss) on Shares Redeemed	-	-	10,185,031	-	(999,747)	(153,118)	-	9,032,166
Net Investment Income Earned	3,816,931	31,015,277	128,526,612	14,388,880	16,700,443	2,947,318	121,827,902	319,223,363
Net Investment Income Distributed	(3,816,931)	(31,015,277)	(128,526,612)	(14,388,880)	(16,700,443)	(2,947,318)	(121,827,902)	(319,223,363)
Changes in Market Value of Fund Shares	-	(26,481,988)	132,000,001	(74,248,363)	(10,116,454)	2,397,059	(218,535,430)	(194,985,176)
Market Value at June 30, 2003	\$ 288,463,958	\$ 2,498,015,185	\$ 2,515,112,880	\$ 784,016,290	\$ 163,879,606	\$ 27,766,991	\$ 709,924,440	\$ 6,987,179,350
Book Value at June 30, 2003	288,463,958	702,395,453	2,216,540,823	522,189,936	192,487,005	28,163,673	967,559,365	4,917,800,213
Shares Outstanding	288,463,958	3,684,825	21,760,377	4,156,794	2,848,587	378,357	10,877,348	332,170,246
Market Value per Share	\$ 1.00	\$ 677.92	\$ 115.58	\$ 188.61	\$ 57.53	\$ 73.39	\$ 65.27	
<b>Municipal Employees' Retirement Fund</b>								
Book Value at June 30, 2002	\$ 57,549,070	\$ 113,692,994	\$ 378,892,934	\$ 80,092,276	\$ 31,160,428	\$ 4,811,607	\$ 145,241,953	\$ 811,441,262
Market Value at June 30, 2002	\$ 57,549,070	\$ 417,712,547	\$ 404,247,379	\$ 131,627,885	\$ 28,391,778	\$ 4,408,247	\$ 140,571,351	\$ 1,184,508,259
Shares Purchased	63,081,062	-	-	-	391,675	-	8,381,193	71,853,930
Shares Redeemed	(34,267,645)	-	(16,853,296)	-	(1,385,928)	(410,349)	-	(52,917,219)
Returns of Capital	-	-	-	-	-	-	-	-
Gain/(Loss) on Shares Redeemed	-	-	1,588,661	-	(150,338)	(20,913)	-	1,417,411
Net Investment Income Earned	1,253,234	5,131,900	20,982,708	2,206,751	2,614,640	461,664	19,544,814	52,195,711
Net Investment Income Distributed	(1,253,234)	(5,131,900)	(20,982,708)	(2,206,751)	(2,614,640)	(461,664)	(19,544,814)	(52,195,711)
Changes in Market Value of Fund Shares	-	(4,381,807)	21,623,862	(11,387,111)	(1,590,026)	372,402	(35,059,575)	(30,422,255)
Market Value at June 30, 2003	\$ 86,362,487	\$ 413,330,740	\$ 410,606,606	\$ 120,240,773	\$ 25,657,162	\$ 4,349,387	\$ 113,892,968	\$ 1,174,440,124
Book Value at June 30, 2003	86,362,487	113,692,994	363,628,298	80,092,276	30,015,837	4,380,345	153,623,146	831,795,383
Shares Outstanding	86,362,487	609,705	3,552,506	637,507	445,978	59,265	1,745,050	93,412,498
Market Value per Share	\$ 1.00	\$ 677.92	\$ 115.58	\$ 188.61	\$ 57.53	\$ 73.39	\$ 65.27	



**CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS**

**STATEMENT OF INVESTMENT ACTIVITY BY PENSION PLAN (Continued)  
FOR THE FISCAL YEAR ENDING JUNE 30, 2003**

	<b>CASH RESERVE FUND</b>	<b>MUTUAL EQUITY FUND</b>	<b>MUTUAL FIXED INCOME FUND</b>	<b>INTER- NATIONAL STOCK FUND</b>	<b>REAL ESTATE FUND</b>	<b>COMMERCIAL MORTGAGE FUND</b>	<b>PRIVATE INVESTMENT FUND</b>	<b>TOTALS</b>
<b>Probate Court Retirement Fund</b>								
Book Value at June 30, 2002	\$ 2,981,449	\$ 5,608,744	\$ 20,589,814	\$ 4,984,897	\$ 1,789,812	\$ 285,331	\$ 4,338,420	\$ 40,578,466
Market Value at June 30, 2002	\$ 2,981,449	\$ 21,256,155	\$ 22,355,297	\$ 8,223,363	\$ 1,624,597	\$ 257,102	\$ 4,225,977	\$ 60,923,940
Shares Purchased	4,106,905	-	-	-	22,412	-	251,963	4,381,280
Shares Redeemed	(3,003,361)	-	(932,005)	-	(79,304)	(23,933)	-	(4,038,602)
Returns of Capital	-	-	-	-	-	-	-	-
Gain/(Loss) on Shares Redeemed	-	-	102,494	-	(8,935)	(1,642)	-	91,917
Net Investment Income Earned	63,774	261,147	1,160,366	137,867	149,612	26,927	587,573	2,387,266
Net Investment Income Distributed	(63,774)	(261,147)	(1,160,366)	(137,867)	(149,612)	(26,927)	(587,573)	(2,387,266)
Changes in Market Value of Fund Shares	-	(222,977)	1,181,184	(711,402)	(90,650)	22,142	(1,053,992)	(875,695)
Market Value at June 30, 2003	\$ 4,084,994	\$ 21,033,177	\$ 22,706,970	\$ 7,511,961	\$ 1,468,121	\$ 253,669	\$ 3,423,948	\$ 60,482,838
Book Value at June 30, 2003	4,084,994	5,608,744	19,760,303	4,984,897	1,723,985	259,756	4,590,382	41,013,061
Shares Outstanding	4,084,994	31,026	196,457	39,828	25,519	3,457	52,461	4,433,742
Market Value per Share	\$ 1.00	\$ 677.92	\$ 115.58	\$ 188.61	\$ 57.53	\$ 73.39	\$ 65.27	
<b>Judges' Retirement Fund</b>								
Book Value at June 30, 2002	\$ 8,214,913	\$ 12,521,422	\$ 42,923,026	\$ 7,984,311	\$ 2,930,967	\$ 472,865	\$ 14,732,778	\$ 89,780,282
Market Value at June 30, 2002	\$ 8,214,913	\$ 41,660,823	\$ 45,128,857	\$ 12,996,995	\$ 2,620,790	\$ 434,238	\$ 14,208,289	\$ 125,264,906
Shares Purchased	6,638,557	-	-	-	36,155	-	847,132	7,521,844
Shares Redeemed	(2,881,467)	-	(1,881,447)	-	(127,932)	(40,422)	-	(4,931,268)
Returns of Capital	-	-	-	-	-	-	-	-
Gain/(Loss) on Shares Redeemed	-	-	152,188	-	(16,551)	(1,961)	-	133,675
Net Investment Income Earned	172,080	511,832	2,342,440	217,896	241,352	45,476	1,975,499	5,506,575
Net Investment Income Distributed	(172,080)	(511,832)	(2,342,440)	(217,896)	(241,352)	(45,476)	(1,975,499)	(5,506,575)
Changes in Market Value of Fund Shares	-	(437,023)	2,439,183	(1,124,368)	(144,099)	36,584	(3,543,657)	(2,773,379)
Market Value at June 30, 2003	\$ 11,972,003	\$ 41,223,801	\$ 45,838,781	\$ 11,872,627	\$ 2,368,363	\$ 428,440	\$ 11,511,764	\$ 125,215,777
Book Value at June 30, 2003	11,972,003	12,521,422	41,193,767	7,984,311	2,822,638	430,482	15,579,909	92,504,533
Shares Outstanding	11,972,003	60,809	396,590	62,948	41,167	5,838	176,381	12,715,737
Market Value per Share	\$ 1.00	\$ 677.92	\$ 115.58	\$ 188.61	\$ 57.53	\$ 73.39	\$ 65.27	
<b>State's Attorneys' Retirement Fund</b>								
Book Value at June 30, 2002	\$ 50,478	\$ 92,347	\$ 157,239	\$ -	\$ 5,471	\$ -	\$ -	\$ 305,535
Market Value at June 30, 2002	\$ 50,478	\$ 372,739	\$ 186,178	\$ -	\$ 5,465	\$ -	\$ -	\$ 614,857
Shares Purchased	21,432	-	-	-	75	-	-	21,507
Shares Redeemed	(24,000)	-	-	-	(267)	-	-	(24,267)
Returns of Capital	-	-	-	-	-	-	-	-
Gain/(Loss) on Shares Redeemed	-	-	-	-	(3)	-	-	(3)
Net Investment Income Earned	853	4,580	9,834	-	504	-	-	15,771
Net Investment Income Distributed	(853)	(4,580)	(9,834)	-	(504)	-	-	(15,771)
Changes in Market Value of Fund Shares	-	(3,910)	10,867	-	(332)	-	-	6,625
Market Value at June 30, 2003	\$ 47,909	\$ 368,829	\$ 197,045	\$ -	\$ 4,938	\$ -	\$ -	\$ 618,719
Book Value at June 30, 2003	47,909	92,347	157,239	-	5,276	-	-	302,772
Shares Outstanding	47,909	544	1,705	-	86	-	-	50,244
Market Value per Share	\$ 1.00	\$ 677.92	\$ 115.58	\$ -	\$ 57.53	\$ -	\$ -	

CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS

STATEMENT OF INVESTMENT ACTIVITY BY TRUST  
FOR THE FISCAL YEAR ENDING JUNE 30, 2003

	CASH RESERVE FUND	MUTUAL EQUITY FUND	MUTUAL FIXED INCOME FUND	INTER- NATIONAL STOCK FUND	REAL ESTATE FUND	COMMERCIAL MORTGAGE FUND	PRIVATE INVESTMENT FUND	TOTALS
<b>Soldiers' Sailors' &amp; Marines' Fund</b>								
Book Value at June 30, 2002	\$ 60,037	\$ 1,095,686	\$ 49,098,734	\$ -	\$ -	\$ -	\$ -	\$ 50,254,458
Market Value at June 30, 2002	\$ 60,037	\$ 4,699,746	\$ 51,613,000	\$ -	\$ -	\$ -	\$ -	\$ 56,372,782
Shares Purchased	2,785,287	-	-	-	-	-	-	2,785,287
Shares Redeemed	(2,785,281)	-	-	-	-	-	-	(2,785,281)
Returns of Capital	-	-	-	-	-	-	-	-
Gain/(Loss) on Shares Redeemed	-	-	-	-	-	-	-	-
Net Investment Income Earned	1,321	57,739	2,726,227	-	-	-	-	2,785,287
Net Investment Income Distributed	(1,321)	(57,739)	(2,726,227)	-	-	-	-	(2,785,287)
Changes in Market Value of Fund Shares	-	(49,300)	3,012,654	-	-	-	-	2,963,355
Market Value at June 30, 2003	\$ 60,043	\$ 4,650,446	\$ 54,625,655	\$ -	\$ -	\$ -	\$ -	\$ 59,336,142
Book Value at June 30, 2003	60,043	1,095,686	49,098,734	-	-	-	-	50,254,463
Shares Outstanding	60,043	6,860	472,613	-	-	-	-	539,516
Market Value per Share	\$ 1.00	\$ 677.92	\$ 115.58	\$ -	\$ -	\$ -	\$ -	
<b>Endowment for the Arts</b>								
Book Value at June 30, 2002	\$ 1,989,726	\$ -	\$ 12,472,429	\$ -	\$ -	\$ -	\$ -	\$ 14,462,155
Market Value at June 30, 2002	\$ 1,989,726	\$ -	\$ 12,561,684	\$ -	\$ -	\$ -	\$ -	\$ 14,551,408
Shares Purchased	1,805,308	-	2,000,000	-	-	-	-	3,805,308
Shares Redeemed	(2,846,804)	-	-	-	-	-	-	(2,846,804)
Returns of Capital	-	-	-	-	-	-	-	-
Gain/(Loss) on Shares Redeemed	-	-	-	-	-	-	-	-
Net Investment Income Earned	19,503	-	728,631	-	-	-	-	748,134
Net Investment Income Distributed	(19,503)	-	(728,631)	-	-	-	-	(748,134)
Changes in Market Value of Fund Shares	-	-	807,684	-	-	-	-	807,684
Market Value at June 30, 2003	\$ 948,230	\$ -	\$ 15,369,367	\$ -	\$ -	\$ -	\$ -	\$ 16,317,596
Book Value at June 30, 2003	948,230	-	14,472,429	-	-	-	-	15,420,659
Shares Outstanding	948,230	-	132,973	-	-	-	-	1,081,204
Market Value per Share	\$ 1.00	\$ -	\$ 115.58	\$ -	\$ -	\$ -	\$ -	
<b>Agricultural College Fund</b>								
Book Value at June 30, 2002	\$ 43,023	\$ 34,969	\$ 336,240	\$ -	\$ -	\$ -	\$ -	\$ 414,232
Market Value at June 30, 2002	\$ 43,023	\$ 153,240	\$ 348,781	\$ -	\$ -	\$ -	\$ -	\$ 545,046
Shares Purchased	20,931	-	10,000	-	-	-	-	30,931
Shares Redeemed	(28,674)	-	-	-	-	-	-	(28,674)
Returns of Capital	-	-	-	-	-	-	-	-
Gain/(Loss) on Shares Redeemed	-	-	-	-	-	-	-	-
Net Investment Income Earned	631	1,882	18,467	-	-	-	-	20,980
Net Investment Income Distributed	(631)	(1,882)	(18,467)	-	-	-	-	(20,980)
Changes in Market Value of Fund Shares	-	(1,608)	20,243	-	-	-	-	18,635
Market Value at June 30, 2003	\$ 35,280	\$ 151,632	\$ 379,025	\$ -	\$ -	\$ -	\$ -	\$ 565,939
Book Value at June 30, 2003	35,280	34,969	346,240	-	-	-	-	416,490
Shares Outstanding	35,280	224	3,279	-	-	-	-	38,783
Market Value per Share	\$ 1.00	\$ 677.92	\$ 115.58	\$ -	\$ -	\$ -	\$ -	

**CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS**

**STATEMENT OF INVESTMENT ACTIVITY BY TRUST (Continued)  
FOR THE FISCAL YEAR ENDING JUNE 30, 2003**

	<b>CASH RESERVE FUND</b>	<b>MUTUAL EQUITY FUND</b>	<b>MUTUAL FIXED INCOME FUND</b>	<b>INTER- NATIONAL STOCK FUND</b>	<b>REAL ESTATE FUND</b>	<b>COMMERCIAL MORTGAGE FUND</b>	<b>PRIVATE INVESTMENT FUND</b>	<b>TOTALS</b>
<b>Ida Eaton Cotton Fund</b>								
Book Value at June 30, 2002	\$ 145,762	\$ 120,193	\$ 1,134,206	\$ -	\$ -	\$ -	\$ -	1,400,161
Market Value at June 30, 2002	\$ 145,762	\$ 521,049	\$ 1,186,904	\$ -	\$ -	\$ -	\$ -	1,853,716
Shares Purchased	71,207	-	35,000	-	-	-	-	106,207
Shares Redeemed	(98,921)	-	-	-	-	-	-	(98,921)
Returns of Capital	-	-	-	-	-	-	-	-
Gain/(Loss) on Shares Redeemed	-	-	-	-	-	-	-	-
Net Investment Income Earned	2,127	6,399	62,847	-	-	-	-	71,373
Net Investment Income Distributed	(2,127)	(6,399)	(62,847)	-	-	-	-	(71,373)
Changes in Market Value of Fund Shares	-	(5,465)	68,875	-	-	-	-	63,410
Market Value at June 30, 2003	\$ 118,049	\$ 515,583	\$ 1,290,779	\$ -	\$ -	\$ -	\$ -	1,924,412
Book Value at June 30, 2003	118,049	120,193	1,169,206	-	-	-	-	1,407,448
Shares Outstanding	118,049	761	11,168	-	-	-	-	129,977
Market Value per Share	\$ 1.00	\$ 677.92	\$ 115.58	\$ -	\$ -	\$ -	\$ -	
<b>Andrew Clark Fund</b>								
Book Value at June 30, 2002	\$ 68,684	\$ 56,908	\$ 553,867	\$ -	\$ -	\$ -	\$ -	679,459
Market Value at June 30, 2002	\$ 68,684	\$ 245,311	\$ 558,323	\$ -	\$ -	\$ -	\$ -	872,318
Shares Purchased	33,544	-	15,000	-	-	-	-	48,544
Shares Redeemed	(45,576)	-	-	-	-	-	-	(45,576)
Returns of Capital	-	-	-	-	-	-	-	-
Gain/(Loss) on Shares Redeemed	-	-	-	-	-	-	-	-
Net Investment Income Earned	1,051	3,013	29,557	-	-	-	-	33,621
Net Investment Income Distributed	(1,051)	(3,013)	(29,557)	-	-	-	-	(33,621)
Changes in Market Value of Fund Shares	-	(2,573)	32,416	-	-	-	-	29,842
Market Value at June 30, 2003	\$ 56,651	\$ 242,738	\$ 605,739	\$ -	\$ -	\$ -	\$ -	905,128
Book Value at June 30, 2003	56,651	56,908	568,867	-	-	-	-	682,426
Shares Outstanding	56,651	358	5,241	-	-	-	-	62,250
Market Value per Share	\$ 1.00	\$ 677.92	\$ 115.58	\$ -	\$ -	\$ -	\$ -	
<b>School Fund</b>								
Book Value at June 30, 2002	\$ 654,630	\$ 535,691	\$ 5,100,716	\$ -	\$ -	\$ -	\$ -	6,291,037
Market Value at June 30, 2002	\$ 654,630	\$ 2,321,638	\$ 5,284,302	\$ -	\$ -	\$ -	\$ -	8,260,570
Shares Purchased	354,997	-	235,000	-	-	-	-	589,997
Shares Redeemed	(579,832)	-	-	-	-	-	-	(579,832)
Returns of Capital	-	-	-	-	-	-	-	-
Gain/(Loss) on Shares Redeemed	-	-	-	-	-	-	-	-
Net Investment Income Earned	10,933	28,523	287,023	-	-	-	-	326,479
Net Investment Income Distributed	(10,933)	(28,523)	(287,023)	-	-	-	-	(326,479)
Changes in Market Value of Fund Shares	-	(24,354)	318,798	-	-	-	-	294,444
Market Value at June 30, 2003	\$ 429,795	\$ 2,297,284	\$ 5,838,100	\$ -	\$ -	\$ -	\$ -	8,565,179
Book Value at June 30, 2003	429,795	535,691	5,335,716	-	-	-	-	6,301,202
Shares Outstanding	429,795	3,389	50,510	-	-	-	-	483,694
Market Value per Share	\$ 1.00	\$ 677.92	\$ 115.58	\$ -	\$ -	\$ -	\$ -	

CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS

STATEMENT OF INVESTMENT ACTIVITY BY TRUST (Continued)  
FOR THE FISCAL YEAR ENDING JUNE 30, 2003

	CASH RESERVE FUND	MUTUAL EQUITY FUND	MUTUAL FIXED INCOME FUND	INTER- NATIONAL STOCK FUND	REAL ESTATE FUND	COMMERCIAL MORTGAGE FUND	PRIVATE INVESTMENT FUND	TOTALS
<b>Hopmead Fund</b>								
Book Value at June 30, 2002	\$ 130,253	\$ 110,967	\$ 1,050,169	\$ -	\$ -	\$ -	\$ -	\$ 1,291,388
Market Value at June 30, 2002	\$ 130,253	\$ 477,503	\$ 1,079,053	\$ -	\$ -	\$ -	\$ -	\$ 1,686,809
Shares Purchased	66,197	-	78,700	-	-	-	-	144,897
Shares Redeemed	(78,109)	-	-	-	-	-	-	(78,109)
Returns of Capital	-	-	-	-	-	-	-	-
Gain/(Loss) on Shares Redeemed	-	-	-	-	-	-	-	-
Net Investment Income Earned	2,452	5,868	58,467	-	-	-	-	66,787
Net Investment Income Distributed	(2,452)	(5,868)	(58,467)	-	-	-	-	(66,787)
Changes in Market Value of Fund Shares	-	(5,009)	64,214	-	-	-	-	59,206
Market Value at June 30, 2003	\$ 118,340	\$ 472,494	\$ 1,221,968	\$ -	\$ -	\$ -	\$ -	\$ 1,812,802
Book Value at June 30, 2003	118,340	110,967	1,128,869	-	-	-	-	1,358,175
Shares Outstanding	118,340	697	10,572	-	-	-	-	129,609
Market Value per Share	\$ 1.00	\$ 677.92	\$ 115.58	\$ -	\$ -	\$ -	\$ -	
<b>Police &amp; Fireman's Survivors' Benefit Fund</b>								
Book Value at June 30, 2002	\$ 4,905,947	\$ 6,859,157	\$ 5,134,231	\$ -	\$ 405,842	\$ 66,175	\$ -	\$ 17,371,351
Market Value at June 30, 2002	\$ 4,905,947	\$ 6,329,550	\$ 5,087,528	\$ -	\$ 420,301	\$ 58,179	\$ -	\$ 16,801,503
Shares Purchased	477,818	-	-	-	5,798	-	-	483,616
Shares Redeemed	(441,716)	-	-	-	(20,517)	(5,416)	-	(467,649)
Returns of Capital	-	-	-	-	-	-	-	-
Gain/(Loss) on Shares Redeemed	-	-	-	-	489	(515)	-	(26)
Net Investment Income Earned	86,396	77,763	268,726	-	38,705	6,093	-	477,683
Net Investment Income Distributed	(86,396)	(77,763)	(268,726)	-	(38,705)	(6,093)	-	(477,683)
Changes in Market Value of Fund Shares	-	(66,397)	296,960	-	(26,252)	5,154	-	209,465
Market Value at June 30, 2003	\$ 4,942,048	\$ 6,263,152	\$ 5,384,488	\$ -	\$ 379,819	\$ 57,402	\$ -	\$ 17,026,908
Book Value at June 30, 2003	4,942,048	6,859,157	5,134,231	-	391,612	60,244	-	17,387,292
Shares Outstanding	4,942,048	9,239	46,586	-	6,602	782	-	5,005,257
Market Value per Share	\$ 1.00	\$ 677.92	\$ 115.58	\$ -	\$ 57.53	\$ 73.39	\$ -	
<b>Tobacco and Health Trust Fund</b>								
Book Value at June 30, 2002	\$ 3,208,337	\$ 9,045,806	\$ 25,328,256	\$ -	\$ -	\$ -	\$ -	\$ 37,582,400
Market Value at June 30, 2002	\$ 3,208,337	\$ 8,171,194	\$ 24,707,834	\$ -	\$ -	\$ -	\$ -	\$ 36,087,365
Shares Purchased	289,422	-	-	-	-	-	-	289,422
Shares Redeemed	(3,497,759)	(7,461,041)	(24,609,969)	-	-	-	-	(35,568,770)
Returns of Capital	-	-	-	-	-	-	-	-
Gain/(Loss) on Shares Redeemed	-	(1,584,764)	(718,288)	-	-	-	-	(2,303,052)
Net Investment Income Earned	12,480	13,541	98,568	-	-	-	-	124,589
Net Investment Income Distributed	(12,480)	(13,541)	(98,568)	-	-	-	-	(124,589)
Changes in Market Value of Fund Shares	-	874,612	620,422	-	-	-	-	1,495,034
Market Value at June 30, 2003	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Book Value at June 30, 2003	-	-	-	-	-	-	-	-
Shares Outstanding	-	-	-	-	-	-	-	-
Market Value per Share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	

CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS

SUPPLEMENTAL SCHEDULE OF FINANCIAL HIGHLIGHTS

PER SHARE DATA	MUTUAL EQUITY					PRIVATE INVESTMENT				
	FISCAL YEAR ENDED JUNE 30,					FISCAL YEAR ENDED JUNE 30,				
	2003	2002	2001	2000	1999	2003	2002	2001	2000	1999
Net Asset Value- Beginning of Period	\$685.11	\$814.49	\$909.17	\$835.47	\$708.74	\$86.33	\$103.96	\$115.01	\$81.40	\$87.28
<b>INCOME FROM INVESTMENT OPERATIONS</b>										
Net Investment Income (Loss)	8.22	8.24	7.54	8.87	8.46	10.40	4.98	3.66	18.12	4.23
Net Gains or (Losses) on Securities (Both Realized and Unrealized)	(7.59)	(130.49)	(93.84)	74.23	127.32	(19.74)	(15.98)	(10.59)	24.17	(5.30)
<b>Total from Investment Operations</b>	<u>(1.23)</u>	<u>(122.25)</u>	<u>(86.30)</u>	<u>83.10</u>	<u>135.78</u>	<u>(9.34)</u>	<u>(11.00)</u>	<u>(6.93)</u>	<u>42.29</u>	<u>(1.07)</u>
<b>LESS DISTRIBUTIONS</b>										
Dividends from Net Investment Income	(8.42)	(7.13)	(8.38)	(9.40)	(9.05)	(11.72)	(6.63)	(4.12)	(8.68)	(4.81)
Net Asset Value - End of Period	<u>\$677.92</u>	<u>\$685.11</u>	<u>\$814.49</u>	<u>\$909.17</u>	<u>\$835.47</u>	<u>\$65.27</u>	<u>\$86.33</u>	<u>\$103.96</u>	<u>\$115.01</u>	<u>\$81.40</u>
<b>TOTAL RETURN</b>	<b>0.48%</b>	<b>-14.95%</b>	<b>-9.55%</b>	<b>10.03%</b>	<b>19.38%</b>	<b>-11.94%</b>	<b>-10.81%</b>	<b>-6.25%</b>	<b>53.86%</b>	<b>-0.81%</b>

RATIOS	2003	2002	2001	2000	1999	2003	2002	2001	2000	1999
Net Assets - End of Period (\$000,000 Omitted)	\$6,599	\$6,677	\$7,931	\$8,853	\$9,124	\$1,848	\$2,281	\$2,607	\$2,565	\$1,186
Ratio of Expenses to Average Net Assets (excl. sec. lending fees & rebates)	0.23%	0.27%	0.38%	0.22%	0.27%	0.40%	0.48%	0.38%	0.48%	1.21%
Ratio of Expenses to Average Net Assets	0.28%	0.34%	0.59%	0.43%	0.57%	na	na	na	na	na
Ratio of Net Investment Income (Loss) to Average Net Assets	1.29%	1.10%	0.88%	1.01%	1.10%	13.69%	5.31%	3.38%	17.91%	5.28%

PER SHARE DATA	INTERNATIONAL STOCK					MUTUAL FIXED INCOME				
	FISCAL YEAR ENDED JUNE 30,					FISCAL YEAR ENDED JUNE 30,				
	2003	2002	2001	2000	1999	2003	2002	2001	2000	1999
Net Asset Value- Beginning of Period	\$206.47	\$232.07	\$271.68	\$228.93	\$217.03	\$109.21	\$109.74	\$108.38	\$109.13	\$113.15
<b>INCOME FROM INVESTMENT OPERATIONS</b>										
Net Investment Income (Loss)	3.60	3.24	4.50	3.26	5.29	5.70	6.87	7.81	8.01	6.79
Net Gains or (Losses) on Securities (Both Realized and Unrealized)	(18.00)	(24.70)	(40.14)	42.68	9.34	6.41	(0.86)	0.75	(1.44)	(4.44)
<b>Total from Investment Operations</b>	<u>(14.40)</u>	<u>(21.46)</u>	<u>(35.64)</u>	<u>45.94</u>	<u>14.63</u>	<u>12.11</u>	<u>6.01</u>	<u>8.56</u>	<u>6.57</u>	<u>2.35</u>
<b>LESS DISTRIBUTIONS</b>										
Dividends from Net Investment Income	(3.46)	(4.14)	(3.97)	(3.19)	(2.73)	(5.74)	(6.54)	(7.20)	(7.32)	(6.37)
Net Asset Value - End of Period	<u>\$188.81</u>	<u>\$206.47</u>	<u>\$232.07</u>	<u>\$271.68</u>	<u>\$228.93</u>	<u>\$115.58</u>	<u>\$109.21</u>	<u>\$109.74</u>	<u>\$108.38</u>	<u>\$109.13</u>
<b>TOTAL RETURN</b>	<b>-6.39%</b>	<b>-9.00%</b>	<b>-13.29%</b>	<b>20.13%</b>	<b>6.77%</b>	<b>12.03%</b>	<b>5.64%</b>	<b>8.03%</b>	<b>5.77%</b>	<b>2.64%</b>

RATIOS	2003	2002	2001	2000	1999	2003	2002	2001	2000	1999
Net Assets - End of Period (\$000,000 Omitted)	\$2,034	\$2,227	\$2,503	\$2,930	\$2,469	\$6,610	\$6,526	\$6,586	\$6,496	\$6,170
Ratio of Expenses to Average Net Assets (excl. sec. lending fees & rebates)	0.61%	0.67%	0.40%	0.36%	0.24%	0.15%	0.17%	0.20%	0.16%	0.17%
Ratio of Expenses to Average Net Assets	0.77%	1.05%	1.44%	1.46%	1.27%	0.34%	0.45%	0.87%	0.71%	0.69%
Ratio of Net Investment Income (Loss) to Average Net Assets	1.82%	1.47%	1.79%	1.30%	1.98%	5.07%	6.24%	7.13%	6.79%	6.83%

PER SHARE DATA	COMMERCIAL MORTGAGE					REAL ESTATE				
	FISCAL YEAR ENDED JUNE 30,					FISCAL YEAR ENDED JUNE 30,				
	2003	2002	2001	2000	1999	2003	2002	2001	2000	1999
Net Asset Value- Beginning of Period	\$67.71	\$72.91	\$73.17	\$74.97	\$77.12	\$61.42	\$63.31	\$60.56	\$59.48	\$58.53
<b>INCOME FROM INVESTMENT OPERATIONS</b>										
Net Investment Income (Loss)	8.39	6.58	6.89	6.98	6.24	2.95	0.79	0.99	2.34	1.71
Net Gains or (Losses) on Securities (Both Realized and Unrealized)	4.68	(5.81)	0.52	(1.29)	(1.78)	(1.08)	(0.31)	7.54	3.00	0.03
<b>Total from Investment Operations</b>	<u>13.07</u>	<u>0.77</u>	<u>7.41</u>	<u>5.69</u>	<u>4.46</u>	<u>1.87</u>	<u>0.48</u>	<u>8.53</u>	<u>5.34</u>	<u>1.74</u>
<b>LESS DISTRIBUTIONS</b>										
Dividends from Net Investment Income	(7.39)	(5.97)	(7.67)	(7.49)	(6.61)	(5.76)	(2.37)	(5.78)	(4.26)	(0.79)
Net Asset Value - End of Period	<u>\$73.39</u>	<u>\$67.71</u>	<u>\$72.91</u>	<u>\$73.17</u>	<u>\$74.97</u>	<u>\$57.53</u>	<u>\$61.42</u>	<u>\$63.31</u>	<u>\$60.56</u>	<u>\$59.48</u>
<b>TOTAL RETURN</b>	<b>20.62%</b>	<b>1.19%</b>	<b>10.88%</b>	<b>8.26%</b>	<b>6.10%</b>	<b>3.30%</b>	<b>0.81%</b>	<b>14.45%</b>	<b>9.18%</b>	<b>9.96%</b>

RATIOS	2003	2002	2001	2000	1999	2003	2002	2001	2000	1999
Net Assets - End of Period (\$000,000 Omitted)	\$72	\$73	\$101	\$176	\$237	\$426	\$471	\$476	\$510	\$428
Ratio of Expenses to Average Net Assets (excl. sec. lending fees & rebates)	0.60%	0.53%	0.42%	0.39%	0.35%	0.35%	0.31%	32.00%	0.17%	0.42%
Ratio of Expenses to Average Net Assets	na	na	na	na	na	na	na	na	na	na
Ratio of Net Investment Income (Loss) to Average Net Assets	11.92%	7.75%	9.21%	9.22%	8.64%	1.40%	1.28%	2.26%	3.95%	6.65%

Source: Amounts were derived from custodial records.

**CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS**

**SUMMARY OF OPERATIONS (Dollars in Thousands)  
FISCAL YEARS ENDING JUNE 30**

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Investment Income <sup>(1)</sup>	\$846,268	\$741,812	\$787,287	\$1,002,774	\$731,983	\$734,928	\$648,136	\$621,540	\$510,890	\$453,150
Expenses <sup>(1)</sup>	48,428	60,570	67,282	50,552	54,417	40,817	38,316	36,558	36,623	45,682
Net Investment Income	797,840	681,242	720,005	952,222	677,566	694,111	609,820	584,982	474,267	407,468
Realized Gains/(Losses)	(566,526)	(449,961)	269,330	1,522,994	673,802	1,350,408	277,293	1,240,686	(7,954)	539,865
Change in Unrealized Gains/(Losses)	123,786	(1,563,253)	(1,776,378)	90,500	530,276	681,413	1,727,651	(103,966)	998,758	(473,565)
<b>Total</b>	<b>\$355,100</b>	<b>\$(1,331,972)</b>	<b>\$(787,043)</b>	<b>\$2,565,716</b>	<b>\$1,881,644</b>	<b>\$2,725,932</b>	<b>\$2,614,764</b>	<b>\$1,721,702</b>	<b>\$1,465,070</b>	<b>\$473,768</b>

(1) Securities lending income and expenses are shown net in the Investment Income line above for all periods presented.

Source: Amounts were derived from custodial records.

**PENSION AND TRUST FUNDS  
BALANCES <sup>(1)</sup> IN COMBINED INVESTMENT FUNDS (Dollars in Thousands)  
AT JUNE 30, 2003**

Fund Name	Teachers' Retirement Fund		State Employees' Retirement Fund		Municipal Employees' Retirement Fund		Judges Retirement Fund		Probate Court Retirement Fund		State's Attorneys' Retirement Fund		Trust Funds	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
CRA	314,412	3.19%	288,464	4.13%	86,362	7.35%	11,972	9.56%	4,085	6.75%	48	7.75%	6,708	6.30%
MEF	3,609,903	36.66%	2,498,015	35.75%	413,331	35.20%	41,224	32.92%	21,033	34.78%	369	59.61%	14,593	13.71%
ISF	3,530,423	35.86%	2,515,113	35.99%	410,607	34.96%	45,839	36.62%	22,707	37.54%	197	31.83%	84,715	79.58%
REF	1,110,451	11.28%	784,016	11.22%	120,241	10.24%	11,873	9.48%	7,512	12.42%	-	0.00%	-	0.00%
MFIF	232,032	2.36%	163,880	2.35%	25,657	2.18%	2,368	1.89%	1,468	2.43%	5	0.81%	380	0.36%
CMF	39,427	0.40%	27,767	0.40%	4,349	0.37%	428	0.34%	254	0.42%	-	0.00%	57	0.05%
PIF	1,009,366	10.25%	709,924	10.16%	113,893	9.70%	11,512	9.19%	3,424	5.66%	-	0.00%	-	0.00%
<b>Total</b>	<b>\$9,846,014</b>	<b>100.00%</b>	<b>\$6,987,179</b>	<b>100.00%</b>	<b>\$1,174,440</b>	<b>100.00%</b>	<b>\$125,216</b>	<b>100.00%</b>	<b>\$60,483</b>	<b>100.00%</b>	<b>\$619</b>	<b>100.00%</b>	<b>\$106,453</b>	<b>100.00%</b>

(1) Based on Net Asset Value

Source: Amounts were derived from custodial records.

**CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS**

**LIST OF INVESTMENT ADVISORS AND NET ASSETS UNDER MANAGEMENT  
JUNE 30, 2003**

Name of Fund	Investment Strategy	Net Assets Under Management	Percent of Fund Total
<b>CASH RESERVE ACCOUNT (CRA)</b>			
State Street Global Advisors	Active	\$ 1,852,825,784	100.00%
<b>SUBTOTAL CRA</b>		<b>\$ 1,852,825,784</b>	<b>100.00%</b>
<b>MUTUAL EQUITY FUND (MEF)</b>			
<b>Large Cap</b>			
BGI Barclays Global Investors, N.A.	Passive - Enhanced	\$ 2,834,136,432	74.99%
State Street Global Advisors	Passive - Indexed	2,114,150,009	42.95%
<b>Small/Mid Cap</b>			
AXA Rosenberg Investment Management	Passive-Enhanced	\$ 387,640,242	10.68%
SSB Citigroup (The Travelers)	Passive-Enhanced	316,752,617	5.88%
<b>Small/Mid Cap</b>			
TCW Cowen Asset Management	Active	\$ 345,963,282	4.80%
Brown Capital Management, Inc.	Active	299,604,813	14.04%
Thomas Weisel Asset Management	Active	281,100,933	5.24%
<b>Other <sup>(1)</sup></b>		<b>\$ 19,119,848</b>	<b>4.54%</b>
<b>SUBTOTAL MEF</b>		<b>\$ 6,598,468,176</b>	<b>100.00%</b>
<b>INTERNATIONAL STOCK FUND (ISF)</b>			
<b>EAFE - Europe</b>			
State Street Global Advisors	Passive - Enhanced	\$ 451,327,190	22.19%
<b>Core</b>			
Grantham, Mayo, Van Otterloo & Co.	Active	\$ 508,094,277	60.42%
Morgan Stanley Asset Management	Active	474,015,628	24.98%
DSI International Management	Active	123,665,001	23.30%
Smith Barney Capital Management	Active	123,230,451	6.08%
<b>Emerging</b>			
Morgan Stanley Asset Management	Active	\$ 198,388,606	17.17%
Pictet International Management	Active	150,883,707	9.75%
<b>Other <sup>(1)</sup></b>		<b>\$ 4,487,659</b>	<b>7.42%</b>
<b>SUBTOTAL ISF</b>		<b>\$ 2,034,092,519</b>	<b>100.00%</b>
<b>REAL ESTATE FUND (REF)</b>			
AEW Capital Management	Active	\$ 104,447,895	24.53%
Westport Senior Living	Active	75,976,846	17.85%
Walton Street Real Estate	Active	75,224,577	17.66%
Apollo Real Estate	Active	71,232,718	16.72%
Tishman Hotel Corporation	Active	47,043,121	11.05%
Evergreen Investments	Active	17,294,999	4.06%
New Boston Fund	Active	16,495,150	3.87%
CIGNA Realty Investors	Active	12,400,831	2.91%
<b>Other <sup>(1)</sup></b>	<b>Active</b>	<b>\$ 5,674,022</b>	<b>1.36%</b>
<b>SUBTOTAL REF</b>		<b>\$ 425,790,159</b>	<b>100.00%</b>
<b>MUTUAL FIXED INCOME FUND (MFIF)</b>			
<b>Core</b>			
Western Asset Management Co.	Active	\$ 1,578,091,449	87.55%
State Street Global Advisors	Passive-Enhanced	1,562,280,692	23.87%
BlackRock Financial Management, Inc.	Active	1,251,837,018	23.64%
Wellington	Active	1,070,671,136	18.94%
Phoenix	Active	323,818,076	16.20%
<b>High Yield</b>			
Loomis Sayles & Co., Inc.	Active	\$ 326,963,012	4.90%
W.R. Huff Asset Management	Active	326,963,012	4.95%
Oaktree Capital Management, L.L.C.	Active	254,881,050	3.85%
Triumph II LP	Active	225,880,502	3.42%
<b>Other <sup>(1)</sup></b>		<b>\$ 94,028</b>	<b>0.00%</b>
<b>SUBTOTAL MFIF</b>		<b>\$ 6,609,600,314</b>	<b>100.00%</b>

CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS

LIST OF INVESTMENT ADVISORS AND NET ASSETS UNDER MANAGEMENT (Continued)  
JUNE 30, 2003

Name of Fund	Investment Strategy	Net Assets Under Management	Percent of Fund Total
<b>COMMERCIAL MORTGAGE FUND (CMF)</b>			
AEW Capital Management	Active	\$ 49,754,439	68.83%
Other <sup>(2)</sup>		<b>22,528,060</b>	<b>31.17%</b>
<b>SUBTOTAL CMF</b>		<b>\$ 72,282,499</b>	<b>100.00%</b>
<b>PRIVATE INVESTMENT FUND (PIF)</b>			
<b>Buyout</b>		<b>\$ 678,428,495</b>	<b>36.71%</b>
Veritas Capital Fund	Active	228,946,125	12.39%
Hicks, Muse Tate & Furst Equity Fund III	Active	87,343,235	4.73%
Thomas H. Lee Equity Fund IV	Active	49,428,160	2.67%
DLJ Merchant Banking Fund II	Active	47,702,824	2.58%
KKR 1996 Fund	Active	37,560,709	2.03%
SCP Private Equity Partners	Active	32,680,003	1.77%
Kelso Investment Associates VI	Active	31,028,608	1.68%
Wellspring Capital Partners II	Active	29,463,944	1.59%
Forstmann Little Equity Fund VI	Active	28,972,970	1.57%
Welsh Carson Anderson & Stowe VIII	Active	26,837,760	1.45%
Blackstone Capital Partners III	Active	24,093,965	1.30%
Green Equity Investors III	Active	22,840,152	1.24%
Wellspring Capital Partners III	Active	14,553,161	0.79%
Thayer Equity Investors IV	Active	11,544,879	0.62%
KKR Millennium Fund	Active	5,432,000	0.30%
<b>Venture Capital</b>		<b>141,237,412</b>	<b>7.64%</b>
Pioneer Ventures Associates	Active	33,920,260	1.83%
Shawmut Equity Partners	Active	28,296,091	1.53%
Crescendo World Fund	Active	19,381,649	1.05%
Grotech Partners V	Active	18,863,705	1.02%
Conning Capital Partners V	Active	15,176,417	0.82%
RFE Investment Partners VI	Active	13,641,473	0.74%
Crescendo III	Active	6,099,472	0.33%
Connecticut Futures Fund	Active	3,274,852	0.18%
Connecticut Greene Ventures	Active	2,443,577	0.13%
CT Financial Development Fund	Active	139,916	0.01%
<b>Mezzanine</b>		<b>\$ 126,547,846</b>	<b>6.85%</b>
GarMark Partners	Active	62,721,873	3.39%
SW Pelham Fund	Active	51,560,313	2.79%
Triumph Connecticut	Active	12,145,410	0.66%
SW Pelham Fund II LP	Active	120,250	0.01%
<b>International</b>		<b>\$ 269,601,358</b>	<b>14.59%</b>
Compass Partners European Equity Fund	Active	95,775,876	5.18%
Carlyle Europe Partners	Active	78,695,555	4.26%
AIG Global Emerging Markets Fund	Active	39,052,656	2.12%
Gilbert Global Equity Partners	Active	36,276,725	1.96%
Carlyle Asia Partners	Active	19,800,546	1.07%
<b>Fund of Funds</b>		<b>\$ 305,262,774</b>	<b>16.52%</b>
Crossroads Constitution Fund	Active	154,285,998	8.35%
Landmark Private Equity Fund VIII	Active	80,719,975	4.37%
Goldman Sachs Private Equity Partners Connecticut	Active	50,274,566	2.72%
Lexington Capital Partners II	Active	19,982,235	1.08%
<b>Special Situations</b>		<b>\$ 231,715,463</b>	<b>12.53%</b>
Welsh Carson Anderson & Stowe Capital Partners III	Active	88,578,197	4.79%
Triumph Partners III	Active	78,574,736	4.25%
Greenwich Street Capital Partners II	Active	39,469,686	2.14%
Forstmann Little MBO VII	Active	21,683,250	1.17%
Triumph Capital Investors II	Active	3,409,594	0.18%
Other <sup>(1)</sup>		<b>\$ 95,325,908</b>	<b>5.16%</b>
<b>SUBTOTAL PIF</b>		<b>\$ 1,848,119,256</b>	<b>100.00%</b>



CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS

**LIST OF INVESTMENT ADVISORS AND NET ASSETS UNDER MANAGEMENT (Continued)  
JUNE 30, 2003**

Name of Fund	Investment Strategy	Net Assets Under Management	Percent of Fund Total
<b>TOTAL</b>		<b>\$ 19,441,178,707</b>	
Adjustments <sup>(3)</sup>		(1,140,773,631)	
<b>GRAND TOTAL</b>		<b>\$ 18,300,405,073</b>	

- (1) Other represents moneys earmarked for distribution to participants, reinvestment, and expenses as well as terminated advisor balances and \$25,461,714 in marketable securities.
- (2) Other also includes residential mortgage-backed securities for the Commercial Mortgage Fund.
- (3) Represents Elimination Entry to the Financial Statements to account for investment of Combined Investment Funds in CRA.

CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS

**SCHEDULE OF CONSULTING SERVICES IN EXCESS OF \$5,000<sup>(1)</sup> FOR PERIODS ENDED JUNE 30**

Name of Firm	Description of Services	Aggregate Compensation Paid in Fiscal Year:				
		2003	2002	2001	2000	1999
<b>CONSULTING SERVICES</b>						
CRA RogersCasey Consulting Inc.	Pension Funds Consultant	576,576	555,000	157,500	257,000	210,000
Ferrell Capital Management	International Equity	-	-	-	7,500	37,500
Greystone Capital Management	Pension Funds Consultant	10,230	9,900	-	-	-
Guy E. Garcia	Pension Funds Consultant	-	207,570	-	-	-
Heidrick & Struggles	Pension Funds Consultant	-	98,487	-	-	-
Horton International Maryland	Pension Funds Consultant	-	-	22,101	42,536	-
Invesco Private Capital (Sovereign)	Pension Funds Consultant	978,286	955,813	997,751	-	-
Irwin Tepper Assoc. Inc.	Pension Funds Consultant	-	-	-	15,000	25,000
Pamela J. Bartol	Pension Funds Consultant	-	22,906	40,865	14,377	-
Pension Consulting Alliance	Pension Funds Consultant	138,098	-	-	-	-
Robert Morgan	Pension Funds Consultant	-	-	16,401	-	-
Sidney Lipshires	Pension Funds Consultant	-	-	-	-	6,530
Susan B. Sweeney	Pension Funds Consultant	-	178,504	91,172	-	-
Thompson Proxy Services Inc.	Pension Funds Consultant	-	24,100	75,250	-	-
William M. Mercer, Inc.	Inv. Adv. Council Consult.	-	50,000	-	-	-
<b>TOTAL CONSULTING SERVICES COMPENSATION</b>		<b>\$1,703,190</b>	<b>\$2,102,280</b>	<b>\$1,401,040</b>	<b>\$336,413</b>	<b>\$279,030</b>

(1) Expenses are presented on a cash basis.



CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS

INVESTMENT SUMMARY AT JUNE 30, 2003 (Continued)

Private Investment Fund <sup>(5)</sup>					Connecticut Programs Fund <sup>(5)</sup>			
	Book Value	Market Value	% of Total Fund MV	Rate of Return	Book Value	Market Value	% of Total Fund MV	Rate of Return
2003	\$2,413,582,348	\$1,842,900,019	9.70%	(11.94%)	—	—	—%	—%
2002	2,315,048,277	2,276,642,374	11.64%	(10.81%)	—	—	—%	—%
2001	2,217,285,786	2,601,575,275	12.28%	(6.25%)	—	—	—%	—%
2000	1,879,100,932	2,561,042,272	11.28%	53.86%	—	—	—%	—%
1999	1,138,252,584	1,182,905,063	5.80%	(0.81%)	—	—	—%	—%
1998	715,880,779	794,324,372	4.21%	18.55%	—	—	—%	—%
1997	496,527,964	542,174,959	3.02%	5.68%	—	—	—%	—%
1996	198,233,821	302,481,786	2.18%	43.78%	\$172,656,335	\$179,638,107	1.29%	14.24%
1995	167,316,010	222,837,361	1.80%	25.39%	122,511,963	112,633,665	0.91%	(5.86%)
1994	164,964,030	169,773,008	1.55%	5.20%	87,711,051	66,076,102	0.60%	3.38%
Total Fund								
	Book Value	Market Value	% of Total Fund MV	Rate of Return				
2003	\$18,771,449,134	\$18,989,393,113	100.00%	2.49%				
2002	19,403,848,200	19,557,516,103	100.00%	(6.39%)				
2001	19,571,276,798	21,204,840,744	100.00%	(3.68%)				
2000	19,248,259,423	22,711,717,228	100.00%	13.13%				
1999	17,242,196,196	20,410,424,008	100.00%	10.49%				
1998	16,218,449,530	18,848,711,553	100.00%	17.19%				
1997	14,443,085,321	17,958,291,977	100.00%	19.35%				
1996	13,662,295,156	13,893,219,375	100.00%	14.14%				
1995	11,041,902,207	12,376,250,052	100.00%	13.48%				
1994	10,647,133,115	10,950,008,187	100.00%	3.74%				

- (1) All rates of return are net of management fees and division operating expenses.
- (2) The market value of CRA for the periods presented represents the market value of the pension and trust balances in CRA only (excluding receivables and payables); the CRA balances of the other combined investment funds are shown in the market value of each fund.
- (3) The International Bond Fund merged with The Mutual Fixed Income Fund in March 1996.
- (4) Residential Mortgage Fund was merged with the Commercial Mortgage Fund in November 1995.
- (5) The Connecticut Programs Fund merged with Venture Capital Fund In December 1996. In fiscal year 1999, the Venture Capital Fund was renamed as the Private Investment Fund.

**CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS**

**TOP TEN HOLDINGS BY FUND AT JUNE 30, 2003 (Continued)**

**MUTUAL EQUITY FUND**

<b>Security Name</b>	<b>Industry Sector</b>	<b>Market Value</b>	<b>%</b>
General Electric	Technology	\$ 184,895,916	2.80%
Pfizer Inc	Health Care	176,901,201	2.68%
Microsoft	Technology	128,298,622	1.94%
Exxon Mobil Corp	Energy	125,360,876	1.90%
Wal Mart Stores Inc	Consumer Non-Durables	114,836,840	1.74%
CitiGroup Inc	Financial	107,395,986	1.63%
Merck & Co Inc	Health Care	103,365,995	1.57%
Intel Corp	Technology	102,608,218	1.55%
Bank America Corp	Financial	94,694,141	1.43%
International Business Machines	Technology	94,290,735	1.43%
<b>TOTAL</b>		<b>\$1,232,648,530</b>	<b>18.67%</b>

**INTERNATIONAL STOCK FUND**

<b>Security Name</b>	<b>Country</b>	<b>Market Value</b>	<b>%</b>
Total SA Eur T0 Serie B	France	\$ 34,010,186	1.68%
Vodafone Group ORD USD .10	United Kingdom	26,755,655	1.32%
Glaxosmithkline ORD GBP .25	United Kingdom	26,509,635	1.31%
ENI EUR1	Italy	23,544,524	1.16%
Novartis AG CHF .50 REGD	Switzerland	22,255,030	1.10%
Nokia AB OY EUR .06	Finland	21,331,074	1.05%
Deutsche Telekom NPV	Germany	20,061,572	0.99%
Telefonica SA EUR 1	Spain	19,720,441	0.97%
Royal Dutch Petrol EUR .56	Netherlands	19,034,995	0.94%
Deutsche Bank AG ORD NPV	Germany	18,583,273	0.92%
<b>TOTAL</b>		<b>\$ 231,806,385</b>	<b>11.44%</b>

**REAL ESTATE FUND**

<b>Property Name</b>	<b>Location</b>	<b>Property Type</b>	<b>Market Value</b>	<b>%</b>
Westport Senior Living Inv FD	Various	Senior Living	\$ 75,976,846	17.84%
Walton Street RE II LP Fnd 2	Various	Various	75,224,577	17.66%
AEW Partners III	Various	Various	71,275,452	16.74%
Apollo Real Est Invest Fd III	Various	Various	71,232,718	16.72%
Tishman Goodwin Center	Hartford, CT	Mixed Use	47,043,121	11.05%
Union Station LTD LP	Washington, DC	Mixed Use	33,172,443	7.79%
New Boston Fund IV	Various	Various	16,495,150	3.87%
Timberland Fund A - Duplin	Various	Timber	15,046,650	3.53%
Worcester Center	Worcester, MA	Mixed Use	12,400,831	2.91%
Timberland Fund A - Ball's Qtr.	Various	Timber	2,248,349	0.53%
<b>Top Ten</b>			<b>\$ 420,116,137</b>	<b>98.64%</b>

**CONNECTICUT STATE TREASURER'S COMBINED INVESTMENT FUNDS**

**TOP TEN HOLDINGS BY FUND AT JUNE 30, 2003**

**MUTUAL FIXED INCOME FUND**

<b>Security Name</b>	<b>Coupon</b>	<b>Maturity</b>	<b>Security Type</b>	<b>Market Value</b>	<b>%</b>
GNMA TBA	6.50%	12/15/2033	U.S. Govt Agency	\$ 141,881,250	1.94%
FNMA TBA	6.00%	12/31/2033	U.S. Govt Agency	112,010,938	1.53%
FNMA TBA	5.50%	12/31/2033	U.S. Govt Agency	108,024,141	1.48%
U.S. Treasury Notes	1.00%	07/17/2003	U.S. Govt Agency	106,555,497	1.46%
FNMA TBA	6.50%	12/01/2033	U.S. Govt Agency	98,988,977	1.35%
GNMA TBA	7.00%	12/15/2033	U.S. Govt Agency	57,335,469	0.78%
FNMA TBA	7.00%	12/31/2033	U.S. Govt Agency	56,211,425	0.77%
U.S. Treasury Notes	1.625%	03/31/2005	U.S. Govt Agency	55,378,125	0.76%
U.S. Treasury Bonds	5.375%	02/15/2031	U.S. Govt Agency	48,785,746	0.67%
Germany FED REP	4.50%	08/17/2007	Foreign Sovereign	47,600,668	0.65%
<b>TOTAL</b>				<b>\$ 832,772,236</b>	<b>11.39%</b>

**COMMERCIAL MORTGAGE FUND**

<b>Property Name</b>	<b>Location</b>	<b>Property Type</b>	<b>Market Value</b>	<b>%</b>
SASCO	Various	Other	\$ 17,901,104	24.87%
Greenhill Apts	Detroit, MI	Residential	13,740,471	19.09%
Sheraton Denver West	Lakewood, CO	Hotel	6,864,418	9.53%
Bidderman	Secaucus, NJ	Warehouse	5,559,545	7.72%
North Haven Crossing	North Haven, CT	Retail	5,420,219	7.53%
Yankee Mac Series E 0.92%	Various	Residential	459,741	0.64%
Yankee Mac Series G 0.78%	Various	Residential	147,793	0.20%
Yankee Mac Series F 1.08%	Various	Residential	128,898	0.18%
Yankee Mac Series C 1.43%	Various	Residential	84,398	0.12%
Yankee Mac Series B 1.15%	Various	Residential	44,149	0.06%
<b>TOTAL</b>			<b>\$ 50,350,736</b>	<b>69.94%</b>

**PRIVATE INVESTMENT FUND**

<b>Date of Purchase</b>	<b>Company</b>	<b>Industry</b>	<b>Market Value</b>	<b>%</b>
11/1/98	Integrated Defense Technologies	Electronics	\$ 104,467,104	5.65%
6/28/01	Raytheon Aerospace Company	Services	75,662,047	4.11%
6/26/01	Citadel Broadcasting Corporation	Communications	69,451,536	3.77%
9/21/00	Global Beverage Systems, Inc.	Consumer	36,512,982	1.98%
10/16/96	AMFM, Inc.	Communications	34,114,242	1.85%
9/30/00	TRAK Communications, Inc.	Communications	29,467,759	1.60%
12/23/99	Elixia, B.V.	Medical/Health Related	29,265,074	1.59%
9/13/99	N & W Global Vending	Manufacturing	25,439,854	1.38%
4/30/99	Honsel AG	Manufacturing	23,319,352	1.27%
3/2/98	LIN Holdings Corporation	Communications	22,581,605	1.23%
<b>TOTAL</b>			<b>\$ 450,281,555</b>	<b>24.43%</b>

## GLOSSARY OF INVESTMENT TERMS

- Agency Securities** - Securities issued by U.S. Government agencies, such as the Federal Home Loan Bank. These securities have high credit ratings but are not backed by the full faith and credit of the U.S. Government.
- Alpha** - A measurement of the difference between the actual performance of a fund and its expected performance given the overall return of the market and the fund's beta. Positive alpha indicates successful management of risk while a negative alpha suggests unsuccessful management.
- Asset** - Anything owned that has value; any interest in property, tangible or intangible, that can be used for payment of debts.
- Asset Backed Security** - Financial instruments collateralized by one or more types of assets including real property, mortgages, and receivables.
- Banker's Acceptance (BA)** - A high-quality, short-term negotiable discount note, drawn on and accepted by banks which are obligated to pay the face amount at maturity.
- Basis Point (bp)** - The smallest measure used in quoting yields or returns. One basis point is 0.01% of yield, 100 basis points equals 1%. A yield that changed from 8.75% to 9.50% increased by 75 basis points.
- Benchmark** - A standard unit used as the basis of comparison; a universal unit that is identified with sufficient detail so that other similar classifications can be compared as being above, below, or comparable to the benchmark.
- Beta** - A measure of the volatility associated with the price movement of a stock in relation to the price movement of the overall stock market or benchmark.
- Book Value (BV)** - The value of individual assets, calculated as actual cost less allowances for any depreciation. Book value may be more or less than current market value.
- Capital Gain(Loss)** - Also known as capital appreciation(depreciation), capital gain(loss) measures the increase(decrease) in value of an asset over time.
- Certificates of Deposit (CDs)** - A debt instrument issued by banks, usually paying interest, with maturities ranging from seven days to several years.
- Coefficient of Determination ( $R^2$ )** - A statistic which indicates the amount of variability in a dependent variable, such as Fund returns, which may be explained by an independent variable, such as market returns, in a regression model. The coefficient of determination is denoted  $R^2$  and ranges from 0 to 1.0. If the statistic measures 0, the independent variable offers no explanation of the dependent variable. If the statistic measures 1.0, the independent variable fully explains the dependent variable.
- Collateral** - Property offered as security, usually as an inducement to another party, to lend money or extend credit.
- Collateralized Mortgage Obligation (CMO)** - A generic term for a security backed by real estate mortgages. CMO payment obligations are covered by interest and/or principal payments from a pool of mortgages.
- Commercial Paper** - Short-term obligations with maturities ranging from 1 to 270 days. They are issued by banks, corporations, and other borrowers to investors with temporarily idle cash.
- Compounded Annual Total Return** - Compounded annual total return measures the implicit annual percentage change in value of an investment, assuming reinvestment of dividends, interest, and realized capital gains, including those attributable to currency fluctuations. In effect, compounded annual total return "smoothes" fluctuations in long-term investment returns to derive an implied year-to-year annual return.
- Consumer Price Index (CPI)** - A measure of change in consumer prices, as determined by a monthly survey of the U.S. Bureau of Labor Statistics. Components of the CPI include housing costs, food, transportation, electricity, etc.
- Cumulative Rate of Return** - A measure of the total return earned for a particular time period. This calculation measures the absolute percentage change in value of an investment over a specified period, assuming reinvestment of dividends, interest income, and realized capital gains. For example, if a \$100 investment grew to \$120 in a two-year period, the cumulative rate of return would be 20%.
- Current Yield** - The relationship between the stated annual interest or dividend rate and the market price of a security. In calculating current yield, only income payments are considered; no consideration is given to capital gain/loss or interest on interest.
- Derivative** - Derivatives are generally defined as contracts whose value depends on, or derives from, the value of an underlying asset, reference rate, or index. For example, an option is a derivative instrument because its value derives from an underlying stock, stock index, or future.
- Discount Rate** - The interest rate that the Federal Reserve charges banks for loans, using government securities or eligible paper as collateral.
- Diversification** - The spreading of risk by putting assets in several different securities or categories of investments.
- Duration** - A measure of the average time to receipt of all bond cash flows. Duration is used to determine the percentage change in price of a fixed income security for a given change in the security's yield to maturity. Duration is stated in terms of time periods, generally years. (See Modified and Macaulay duration).
- Equity** - The ownership interest possessed by shareholders in a corporation.
- ERISA (Employee Retirement Income Security Act)** - The 1974 law governing the operation of most private pension and benefit plans. The law eased pension eligibility rules, set up the Pension Benefit Guarantee Corporation, and established guidelines for the management of pension funds.

**GLOSSARY OF INVESTMENT TERMS (Continued)**

- Expense Ratio** - The amount, expressed as a percentage of total investment, that shareholders pay for mutual fund operating expenses and management fees.
- Fair Value** - The amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.
- Federal Funds Rate** - The interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. The federal funds rate is one of the most sensitive indicators of the direction of interest rates since it is set daily by the market.
- Federal Reserve Board** - The governing body of the Federal Reserve System (12 regional Federal banks monitoring the commercial and savings banks in their regions). The board establishes FRS policies on such key matters as reserve requirements and other regulations, sets the discount rate, and tightens or loosens the availability of credit in the economy.
- Fiduciary** - A person, company, or association holding assets in trust for a beneficiary. The fiduciary is charged with the responsibility to invest the money prudently for the beneficiary's benefit.
- Fitch Investor Services** - A financial services bond rating agency.
- Floating Rate Note** - A fixed principal instrument which has a long or even indefinite life and whose yield is periodically reset relative to a reference index rate to reflect changes in short- or intermediate-term interest rates.
- Gross Domestic Product** - Total final value of goods and services produced in the United States over a particular period or time, usually one year. The GDP growth rate is the primary indicator of the health of the economy.
- Hedge** - An investment in assets which serves to reduce the overall risk of a portfolio, usually at the expense of potential reward.
- Index** - A benchmark used in executing investment strategy which is viewed as an independent representation of market performance. An index implicitly assumes cost-free transactions; some assume reinvestment of income. Example: S&P 500 index.
- Index Fund** - A fund whose portfolio attempts to replicate that of a broadbased index such as the S&P 500 so as to match its performance.
- Inflation** - A measure of the rise in price of goods and services, as happens when spending increases relative to the supply of goods on the market, i.e. too much money chasing too few goods.
- Investment Income** - The equity dividends, bond interest, and/or cash interest paid on an investment.
- J-Curve** - An economic theory stating that a policy designed to have one effect will initially have the opposite effect. With regard to closed end commingled fund investments, this generally refers to the impact on returns of contributions made in the early portion of a fund's existence. Invested capital is used to pay fees and organizational costs as well as to make investments in non-income producing enterprises. Such uses negatively impact returns in early periods but are expected to generate increasing income and valuations in the late periods as the previously non-income producing entities start producing income and the relative size of fees and other costs diminish relative to the value of invested capital.
- JP Morgan Emerging Markets Bond Index Plus (EMBI+)** - An index which tracks total returns for traded external debt instruments in the emerging markets. The instruments include external-currency-denominated Brady bonds, loans and Eurobonds, as well as U.S. dollar local markets instruments. The EMBI+ expands upon Morgan's original Emerging Markets Bond Index, which was introduced in 1992 and covers only Brady bonds.
- LB Aggregate Index** - An index made up of Government, Corporate, Mortgage Backed, and Asset Backed securities, all rated investment grade. Returns are market value weighted inclusive of interest. Issues must have at least one year to maturity and an outstanding par value of at least \$100 million.
- Letter of Credit** - An instrument or document issued by a bank, guaranteeing the payment of a customer's drafts up to a stated amount for a specified period. It substitutes the bank's credit for the buyer's and eliminates the seller's risk.
- Liability** - The claim on the assets of a company or individual - excluding ownership equity. The obligation to make a payment to another.
- Leverage** - The use of borrowed funds to increase purchasing power and, ideally, to increase profitability of an investment transaction or business.
- Macaulay Duration** - The present value weighted time to maturity of the cash flows of a fixed payment instrument or of the implicit cash flows of a derivative based on such an instrument.
- Market Value** - The price at which buyers and sellers trade similar items in an open marketplace. Stocks are considered liquid and are therefore valued at a market price. Real estate is illiquid and valued on an appraised basis.
- Master Custodian** - An entity, usually a bank, used for safekeeping of securities and other assets. Responsible for other functions including accounting, performance measurement and securities lending.
- Maturity Date** - The date on which the principal amount of a bond or other debt instrument becomes payable or due.
- Mezzanine Debt** - Subordinated debt.
- MFR Index (Formerly IBC)** - An index which represents an average of the returns of institutional money market mutual funds that invest primarily in first-tier (securities rated A-1, P-1) taxable securities.



**GLOSSARY OF INVESTMENT TERMS (Continued)**

- Modified Duration** - A measurement of the change in the value of an instrument in response to a change in interest rates. It is the primary basis for comparing the effect of interest rate changes on prices of fixed income securities.
- Money Market Fund** - An open-ended mutual fund that invests in commercial paper, bankers' acceptances, repurchase agreements, government securities, certificates of deposit, and other highly liquid and safe securities and pays money market rates of interest. The fund's net asset value remains a constant \$1 per share - only the interest rate goes up or down.
- Moody's (Moody's Investors Service)** - A financial services company which is one of the best known bond rating agencies in the country.
- MSCI-EAFE** - Morgan Stanley Europe Australasia Far East foreign equity index. An arithmetic value weighted average of the performance of over 900 securities on the stock exchanges of 19 countries on three continents. The index is calculated on a total return basis, which includes reinvestment of dividends net of withholding taxes.
- Net Asset Value (NAV)** - The total assets minus liabilities, including any valuation gains or losses on investments or currencies, and any accrued income or expense. NAV is similar to Shareholders' Equity.
- NCREIF (National Council of Real Estate Investment Fiduciaries)** - An index consisting of investment-grade, non-agricultural, income-producing properties: apartments, hotels, offices, and warehouses. Its return includes appreciation, realized capital gains, and income. It is computed by adding the income return and capital appreciation return generated by the properties in the index, on a quarterly basis.
- Par Value** - The stated or face value of a stock or bond. It has little significance for common stocks, however, for bonds it specifies the payment amount at maturity.
- Pension Fund** - A fund set up by a corporation, labor union, governmental entity, or other organization to pay the pension benefits of retired workers.
- Percentile** - A description of the percentage of the total universe in which portfolio performance is ranked.
- Price/Book (P/B)** - A ratio showing the price of a stock divided by its book value. The P/B measures the multiple at which the market is capitalizing the net asset value per share of a company at any given time.
- Price/Earnings (P/E)** - A ratio showing the price of a stock divided by its earnings per share. The P/E measures the multiple at which the market is capitalizing the earnings per share of a company at any given time.
- Present Value** - The current value of a future cash flow or series of cash flows discounted at an appropriate interest rate or rates. For example, at a 12% interest rate, the receipt of one dollar a year from now has a present value of \$0.89286.
- Principal** - Face value of an obligation, such as a bond or a loan, that must be repaid at maturity.
- Prudent Person Rule** - The standard adopted by some states to guide those fiduciaries with responsibility for investing money of others. Such fiduciaries must act as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investment.
- Realized Gain (Loss)** - A gain (loss) that has occurred financially. The difference between the principal amount received and the cost basis of an asset realized at sale.
- Relative Volatility** - A ratio of the standard deviation of the Fund to the standard deviation of its selected benchmark. A relative volatility greater than 1.0 suggests comparatively more volatility in Fund returns than those of the benchmark.
- Repurchase Agreements ("Repos")** - An agreement to purchase securities from an entity for a specified amount of cash and to resell the securities to the entity at an agreed upon price and time. Repos are widely used as a money market instrument.
- Reverse Repurchase Agreements ("Reverse Repos")** - An agreement to sell securities to an entity for a specified amount of cash and to repurchase the securities from the entity at an agreed upon price and time.
- Return on Equity (ROE)** - The net income for the accounting period after payment of preferred stock dividends and before payment of common stock dividends of a company divided by the common stock equity at the beginning of the accounting period.
- Risk Adjusted Return** - A modified (usually reduced) return which accounts for the cost of a specific investment exposure as well as the aggregate risk of such exposure.
- Russell 3000** - An equity index comprised of the securities of the 3,000 largest public U.S. companies as determined by total market capitalization. This index represents approximately 98% of the U.S. equity market. The largest security has a market capitalization of approximately \$85 billion; the smallest is approximately \$90 million.
- Salomon Brothers Broad Investment-Grade Bond Index (SBIG)** - A market value-weighted index composed of over 4,000 individually priced securities with a quality rating of at least BBB. Each issue has a minimum maturity of one year with an outstanding par amount of at least \$25 million.
- Salomon Brothers World Government Bond Index Non-U.S. (SWGBI)** - An unhedged index measuring government issues of 12 major industrialized countries.
- Securities Lending** - A carefully collateralized process of loaning portfolio positions to custodians, dealers, and short sellers who must make physical delivery of positions. Securities lending can reduce custody costs or enhance annual returns by a full percentage point or more in certain market environments.

**GLOSSARY OF INVESTMENT TERMS (Continued)**

**Soft Dollars** - The value of research or other services that brokerage houses and other service entities provide to a client "free of charge" in exchange for the client's business.

**S&P 500 (Standard & Poor's)** - The composite price average of 425 industrial stocks, 50 utility stocks, and 25 railroad stocks.

**S&P Ratings** - A financial services company which is one of the best known bond rating agencies in the country.

**Standard Deviation** - A statistical measure showing the deviation of an individual value in a probability distributed from the mean (average) of the distribution. The greater the degree of dispersion from the mean rate of return, the higher the standard deviation; therefore, the higher the risk.

**Treasury Bill (T-Bill)** - Short-term, highly liquid government securities issued at a discount from the face value and returning the face amount at maturity.

**Treasury Bond or Note** - Debt obligations of the Federal government that make semiannual coupon payments and are sold at or near par value in denominations of \$1,000 or more.

**Trust** - A fiduciary relationship in which a person, called a trustee, holds title to property for the benefit of another person, called a beneficiary.

**TUCS** - Trust Universe Comparison Service. TUCS is based upon a pooling of quarterly trust accounting data from participating banks and other organizations that provide custody for trust assets.

**Turnover** - Security purchases or sales divided by the fiscal year's beginning and ending market values for a given portfolio.

**Unrealized Gain (Loss)** - A profit (loss) that has not been realized through the sale of a security. The gain (loss) is realized when a security or futures contract is actually sold or settled.

**Variable Rate Note** - Floating rate notes with a coupon rate adjusted at set intervals, such as daily, weekly, or monthly, based on different interest rate indices, such as LIBOR, Fed Funds, and Treasury Bills.

**Volatility** - A statistical measure of the tendency of a market price or yield to vary over time. Volatility is said to be high if the price, yield, or return typically changes dramatically in a short period of time.

**Yield** - The return on an investor's capital investment.

**Yield Curve** - A graph showing the term structure of interest rates by plotting the yields of all bonds of the same quality with maturities ranging from the shortest to the longest possible. The Y-axis represents the interest rate and the X-axis represents time, generally with a normal curve that is convex in shape.

**Zero Coupon Bond** - A bond paying no interest that sells at a discount and returns principal only at maturity.

## UNDERSTANDING INVESTMENT PERFORMANCE

## Introduction

This section discusses the Treasury's approach to measuring performance, including risk and return of the Retirement Plans and Trust Funds (CRPTF).

## Understanding Performance

To measure success in achieving the primary objective of the Asset Allocation Plan, the Fund's performance is evaluated in two principal areas: risk and return. The results of these reviews, coupled with information on portfolio characteristics, are used to monitor and improve the performance of the Fund's external investment advisors.

To bring accountability and perspective to Fund performance and measurements of risk and return, The Connecticut Retirement Plans and Trust Funds are compared to those of similarly structured peer groups and indices. These comparisons enable plan participants, the Treasurer and the Investment Advisory Council, to determine whether and by how much Fund returns exceeded or fell short of the benchmarks. Each Fund's benchmark is selected on the basis of portfolio composition, investment style, and objectives.

Comparative performance is reviewed over both the near-term and the long-term for two reasons. First, pension management is, by its very nature, a long-term process. While both young and old employees comprise the pool of plan beneficiaries, the average age of plan participants is relatively low and requires that plan assets be managed for the long term. Second, as experience has shown, results attained in the short term are not necessarily an indicator of results to be achieved over the long term. Performance must be viewed in a broader context.

Overall performance is measured by calculating monthly returns and linking them to provide one-, three-, five- and ten-year histories of overall investment performance. Short-term performance is measured by total return over one-month, quarter-end, and trailing one-year time periods. Risk is also measured over both short- and the long-term periods.

## Risk

The measurement of risk is a critical component in investment management. It is the basis for both strategic decision-making and investment evaluation. As an investment tool, investors assume risk to enhance portfolio returns. These enhancements, viewed as returns in excess of those available on "risk-free" investments, such as Treasury Bills, vary in magnitude according to the degree of risk assumed. Many investors focus on the negative aspects of risk and in doing so forego substantial upside potential, which can significantly enhance long-term returns. Thus, while risk can never be completely eliminated from a portfolio, the prudent management of risk can maximize investment returns at acceptable levels of risk.

Risk can take several forms and include: market risk, the risk of fluctuations in the overall market for securities; company risk, the risk of investing in any single company's stock or bonds; currency-exchange risk, the risk that a foreign country's currency may appreciate or depreciate relative to the U.S. dollar, thus impacting the value of foreign investments; and political risk, risk incurred through investing in foreign countries with volatile economies and political systems.

With respect to fixed income investments, investors also assume: reinvestment risk, the risk that cash flows received from a security will be reinvested at lower rates due to declining interest rates; credit or default risk, the risk that the issuer of a fixed income security may fail to make principal and interest payments on the security; interest rate risk, the risk that prices of fixed coupon bonds will decline in the event of rising market interest rates; and inflation or purchasing power risk, the risk that the real value of a security and its cash flows may be reduced by inflation. The level of risk incurred in fixed income investing increases as the investment time horizon is lengthened. This is demonstrated by the comparatively higher yields available on "long bonds," or bonds maturing in 20 to 30 years, versus those available on short-term fixed income securities.

In the alternative investment category, risks are significantly greater than those of publicly traded investments. Assessment of progress is more tenuous and valuation judgments are more complex. The

**UNDERSTANDING INVESTMENT PERFORMANCE**

investor assumes not only management, product, market, and operations risk, similar to equity investing, but also assumes liquidity risk, the risk that one's investment cannot be immediately liquidated at other than substantially discounted value.

**VOLATILITY**

To measure the effects of risk on the portfolio, the volatility of returns is calculated over time. Volatility, viewed as deviation of returns from an average of these returns over time, is measured statistically by standard deviation. Standard deviation is one of the most widely accepted and descriptive risk measures used by investment professionals today. Funds with high standard deviations are considered riskier than those with low standard deviations.

To evaluate the significance of the Funds' standard deviation, each Fund's relative volatility, or the ratio of the Fund's standard deviation to that of the benchmark is calculated. A relative volatility greater than 1.0 indicates that the Fund is more volatile than the benchmark while a measure less than 1.0 indicates less volatility. A relative volatility of 1.0 signifies an equal degree of volatility between the Fund and the benchmark.

As an extension of standard deviation, each Fund's beta, or a measure of the relative price fluctuation of the Fund to its benchmark, is also calculated. The measurement of beta allows one to evaluate the sensitivity of Fund returns to given movements in the market and/or its benchmark. A beta greater than 1.0 compared to the selected market benchmark signifies greater price sensitivity while a beta less than 1.0 indicates less sensitivity.

To measure the degree of correlation between Fund returns and the benchmark, the Division calculates the coefficient of determination, or R<sup>2</sup>. This calculation, which is used in conjunction with beta, allows one to evaluate how much of the volatility in Fund returns is explained by returns in the selected market benchmark. An R<sup>2</sup> of 1.0 indicates that Fund returns are perfectly explained by returns of the benchmark, while a value less than 1.0 indicates that the returns of the benchmark explain only a portion of the fund return.

Finally, to evaluate how well each of the above measures actually predicted returns of the Fund, a calculation is performed on the Fund's alpha. This calculation measures the absolute difference between the Fund's monthly return and that predicted by its beta. Used together, these measures provide a comprehensive view of a Fund's relative risk profile.

**RETURN**

The Pension and Trust Funds are managed for maximum return with minimal risk. Return, viewed in this context, includes realized and unrealized gains in the market value of a security, including those attributable to currency fluctuations, as well as income distributed from a security such as dividends and interest. Return is measured through two calculations: compounded annual total return and cumulative total return.

Compounded Annual Total Return - This return measure evaluates performance over the short and long-term. Compounded annual total return measures the implicit annual percentage change in value of an investment, assuming reinvestment of dividends, interest, and realized and unrealized capital gains, including those attributable to currency fluctuations. In effect, compounded annual total return "smooths" fluctuations in long-term investment returns to derive an implied year-to-year annual return.

Cumulative Total Return - This calculation measures the absolute percentage change in value of an investment over a specified period, assuming reinvestment of dividends, interest income, and realized capital gains. While this calculation does not "smooth" year-to-year fluctuations in long-term returns to derive implied annual performance, cumulative total return allows one to see on an absolute basis the percentage increase in the total Fund's value over a specified time. Viewed graphically, cumulative total return shows one what a \$10 million investment in the CRPTF a set number of years ago would be worth today.

# *Office of the State Treasurer*

## LIST OF PRINCIPAL OFFICIALS AND PHONE NUMBERS

Denise L. Nappier  
Treasurer, State of Connecticut  
Tel: (860) 702-3001  
Fax: (860) 702-3043

Howard G. Rifkin  
Deputy Treasurer  
Tel: (860) 702-3292  
Fax: (860) 728-1290

Linda D. Hershman  
Assistant Deputy Treasurer  
Tel: (860) 702-3012  
Fax: (860) 728-1290

Catherine S. Boone  
Assistant Treasurer, Debt Management  
Tel: (860) 702-3127  
Fax: (860) 702-3034

Madelyn Colón  
Assistant Treasurer, Unclaimed Property  
Tel: (860) 702-3291  
Fax: (860) 702-3043

Meredith A. Miller  
Assistant Treasurer, Policy  
Tel: (860) 702-3294  
Fax: (860) 728-1290

Alberta R. Mendenhall  
Assistant Treasurer, Second Injury Fund  
Tel: (860) 702-3242  
Fax: (860) 702-3021

Susan B. Sweeney  
Chief Investment Officer, Pension Funds Management  
Tel: (860) 702-3162  
Fax: (860) 702-3042

Lawrence A. Wilson  
Assistant Treasurer, Cash Management  
Tel: (860) 702-3126  
Fax: (860) 702-3041



**CONNECTICUT STATE TREASURY**

**55 Elm Street  
Hartford, CT 06106-1773  
Tel: (860) 702-3000  
[www.state.ct.us/off](http://www.state.ct.us/off)**