



DENISE L. NAPIER
TREASURER

State of Connecticut
Office of the Treasurer

JONATHAN A. HARRIS
DEPUTY TREASURER

May 4, 2011

Members of the Investment Advisory Council

Re: Update on Fairview Venture Capital

Dear Fellow IAC Member:

At the May 11, 2011 meeting of the Investment Advisory Council ("IAC"), I will introduce a follow-up presentation for the consideration of Fairview Constitution IV, L.P. (the "Fund" or "Fairview IV") as the successor fund to the Connecticut Retirement Plans and Trust Funds ("CRPTF") series of venture capital funds.

The presentation will address the feedback received from the IAC at the May 2010 meeting regarding the consideration of a commitment to Fairview IV. In particular, I plan to provide an update on Fairview's performance; report on the findings of my due diligence efforts associated with the assessment of other competitive venture capital Fund of Funds managers; and finally, to qualify the CRPTF's exposure to Fairview.

Attached for your review is a memorandum from M. Timothy Corbett, Chief Investment Officer, regarding Fairview IV that focuses on the specific issues raised by the IAC. In support of Mr. Corbett's conclusions is an addendum to the recommendation report on Fairview IV, which provides the track record update as of December 2010. This report was prepared by the CRPTF's private investment consultant, Franklin Park Associates.

I look forward to our discussion of these materials at next week's meeting.

Sincerely,

A handwritten signature in cursive script, appearing to read "Denise", is written over a circular stamp or watermark.

Denise L. Nappier
State Treasurer

OFFICE OF THE STATE TREASURER
MEMORANDUM



INFORMATION

TO: Denise L. Nappier, Treasurer

FROM: M. Timothy Corbett, Chief Investment Officer *MC*

CC: Jonathan A. Harris, Deputy Treasurer
Christine Shaw, Chief of Staff
Lee Ann Palladino, Deputy Chief Investment Officer
Adrian Kingshott, Principal Investment Officer
Reginald Tucker, Investment Officer

DATE: May 4, 2011

SUBJECT: Fairview Constitution IV, L.P.

Summary

The purpose of this memorandum is to provide an update and further information related to your recommendation that the Connecticut Retirement Plans and Trust Funds ("CRPTF") consider a commitment to the Fairview Constitution IV, L.P. ("Fairview IV" or "The Fund"). A \$150 million commitment is consistent with the pacing plan for venture capital in the Private Investment Fund ("PIF") of \$50 million per year or 10% of planned PIF commitments, requiring the Fairview Capital Partners ("Fairview") to commit to the underlying sub-fund managers in Fairview IV over the course of the next three years.

This memorandum follows up on feedback received from the Investment Advisory Council ("IAC") at the May 2010 IAC meeting regarding Fairview IV. In particular, there were three specific matters that needed further clarification: 1) Fairview performance; 2) questions surrounding other venture capital ("VC") Fund of Funds ("FoF") managers, and 3) the CRPTF's exposure to Fairview. These topics are addressed below.

Fairview's Performance

At the May 2010 IAC meeting, a question was raised regarding the difference in performance as reported by the CRPTF consultant Franklin Park and performance as reported by Fairview. As part of our further due diligence, we reconciled Franklin Park's initial performance metrics with Fairview's and found two variables that explained the different set of performance numbers: 1) assignment of vintage years to the underlying funds was different; and 2) different private equity benchmarks were used.

With regard to vintage years, it was determined that Franklin Park assumed the initial vintage year of the fund of funds as its performance benchmark, while Fairview looked to the underlying funds' vintage year as its performance benchmark. We requested Franklin Park revise its performance assessment, correcting the underlying funds' vintage year comparison to be based on each fund's first draw date, consistent with how Venture Economics defines vintage year. On this basis, 54% of the underlying funds in Fairview Constitution II are performing above the

median and 46% are performing below the median (benchmark results are as of September 30, 2009). While benchmark results for funds less than five years old are not conclusive, this correction did shift a meaningful amount of 4th quartile funds into the 2nd and 3rd quartiles, raising this fund's overall performance to mid-2nd quartile.

Another area of performance reconciliation was between the private equity benchmarks used by Franklin Park and Fairview. Venture Economics and Cambridge are the most commonly used private equity benchmarks. Franklin Park prefers Venture Economics and Fairview uses Cambridge. From Franklin Park's comparative analysis of these benchmarks, performance is pretty close, although there tends to be greater disparity in young vintages. The performance comparison between these two benchmarks is reconciled below.

		Venture	
	Fairview	Economics	Cambridge
Constitution II			
2005	0.7%	2nd	2nd
2006	-5.9%	3rd	2nd
2007	6.2%	1st	1st
Constitution III			
2007	-2.7%	2nd	1st
2008	-4.0%	1st	1st

Unfortunately, the IAC package inadvertently included an earlier version of Franklin Park's recommendation report on Fairview IV that had not yet been updated with our request to correct the underlying funds' vintage year performance comparison. I disseminated this updated performance reconciliation to the IAC in a May 13, 2010 email and with the final Franklin Park recommendation report attached.

Finally, the attached Addendum to Recommendation Report from Franklin Park updates Fairview's performance track record through December 31, 2010. With this update, 65% of the underlying funds in Fairview Constitution II are performing above the median and 35% are performing below the median. Of note, 42% are in 1st quartile and only 12% are in 4th quartile. Of the 35 underlying funds in Fairview Constitution III, 19 of the funds (the 2007 and 2008 vintage year funds) have sufficient seasoning to develop quartile rankings. Of these, 12 or 63% are 1st quartile, 3 or 16% are 2nd quartile, and 4 or 21% are 4th quartile. While it is important to note that benchmark results for funds less than five years old are not conclusive, the trend in quartile rankings from September 2009 to December 2010 is clearly improving.

Other VC FoF Managers

Consistent with the practice of the CRPTF, Fairview IV as a successor fund to Fairview Constitution II and III was automatically reviewed. During this review, the CRPTF compared Fairview to seven other VC FoF managers to ensure that Fairview still managed a competitive program with respect to performance and management fees.

Other variables that were weighed included whether competitors were open to public funds, offered a separate account vehicle to allow the CRPTF to manage our statutory requirements, and were in the market at this time.

At the May 2010 IAC meeting, the matter of further consideration of other VC FoF managers was raised. Subsequent to this meeting, the CRPTF met with Commonfund, Knightsbridge, and JP Morgan after confirming that each was now open to public pension plans and separate accounts. However, it is important to note that certain top funds may not be available through a separate account structure with priority given to each firm's commingled funds to receive first allocations. These meetings confirmed our initial due diligence: Fairview's performance and management fees were within a reasonable range versus other competitors. Comparable benchmark performance for all ranged in the 2nd quartile, and Fairview's management fees are very competitive.

CRPTF's Exposure to Fairview

The CRPTF's relationship to Fairview is outlined in the table below.

As of 12/31/10

(\$ in millions)

Fairview Funds	CRPTF Total Committed	Commitment to sub manager	Unfunded	Remaining Value	Total
Constitution I	640	640	5	150	155
Constitution II	200	200	47	138	185
Constitution III	300	283	223	85	308
<i>Total Fairview Funds</i>	<i>1,140</i>	<i>1,123</i>	<i>275</i>	<i>373</i>	<i>648</i>
<i>Constitution II & III</i>	<i>500</i>	<i>483</i>	<i>270</i>	<i>223</i>	<i>493</i>

Total exposure is typically measured by adding unfunded commitments to remaining value. In this case, total exposure to Fairview would represent \$648 million or 19% of the Private Investment Fund ("PIF") total exposure of \$3.4 billion (as of September 30, 2010), and 2.6% of the CRPTF's \$25.1 billion in invested assets (as of March 31, 2011). However, Fairview did not select the funds in Constitution I. Fairview did select the funds in Constitution II and III. Therefore, the total exposure to Fairview as a FoF manager with fund selection discretion is \$493 million or 14% of the PIF total exposure and 2.0% of the CRPTF.

Moreover, the CRPTF's real investment exposure to Fairview is to the underlying sub-fund managers or General Partners. The largest General Partner exposure for Constitution II and III at the sub-fund manager level is \$37 million or 7.7% of Constitution II and III commitments. (Since Constitution I is almost realized and Fairview did not select these funds, they are excluded from this analysis.) On this basis, the largest General Partner exposure represents 1.1% of the PIF and an insignificant percentage of the CRPTF.

State of Connecticut Retirement Plans and Trust Funds



**Addendum to Recommendation Report
Track Record Update as of December 31, 2010**

Fairview Constitution IV

FranklinPark

Track Record

Fairview has raised six venture fund-of-funds, as described below:

- Fairview Ventures Fund I, L.P. ("Ventures I") was formed in 1999 with \$290 million in capital commitments solely provided by New York State Common Retirement Fund ("NYSCRF").
- Fairview Ventures Fund II, L.P. ("Ventures II") was a commingled fund formed in 2002 with \$120 million in capital commitments.
- Fairview Ventures Fund II - NY, L.P. ("Ventures II NY") was formed in 2002 with \$100 million in commitments provided solely by NYSCRF.
- Fairview Constitution II, L.P. ("Constitution II") was formed in 2005 with \$200 million in commitments provided solely by CRPTF.
- Fairview Ventures Fund III, L.P. ("Ventures III") was a commingled fund formed in 2006 with \$210 million in commitments.
- Fairview Constitution II, L.P. ("Constitution II") was formed in 2007 with \$300 million in commitments provided solely by CRPTF.

Performance results below are presented as of December 31, 2010.

Aggregate Performance Summary (\$ 000) ¹

Fund (Vintage)	# Funds	Contributed	Distributed	NAV	TVPI	Net IRR
Ventures I (1999)	32	\$282,333	\$199,359	\$130,646	1.2x	2.4%
Ventures II (2002)	18	\$104,919	\$15,442	\$74,926	0.9x	-4.6%
Ventures II NY (2002)	11	\$77,093	\$9,154	\$74,432	1.1x	2.2%
Constitution II (2005)	26	\$162,090	\$18,969	\$138,805	1.0x	-1.1%
Ventures III (2006)	29	\$85,785	\$3,175	\$77,087	0.9x	-4.1%
Constitution III (2007)	35	\$86,242	\$1,690	\$85,767	1.0x	1.0%

Note:

¹ Underlying funds Net Asset Values (NAVs) are valued as reported value by the fund managers. The TVPI and Net IRR returns are net of fees and expenses.

Benchmark Analysis^{1,2} - As of December 31, 2010
Constitution II Holdings

Fund	Vintage	General Partner		Quartile Ranking	
		Net IRR	TVPI	Net IRR	TVPI
Bridgescale Partners, L.P.	2005	-2.0%	1.0x	3rd	3rd
Insight Venture Partners V, L.P.	2005	20.8%	1.8x	1st	1st
Morgenthaler Partners VIII, L.P.	2005	0.8%	1.0x	2nd	2nd
Spark Capital, L.P.	2005	-3.0%	0.9x	3rd	3rd
Ampersand 2006 Limited Partnership	2006	6.2%	1.2x	1st	1st
Castile Ventures III, L.P.	2006	-11.9%	0.8x	4th	4th
Devon Park Bioventures, L.P.	2006	-25.4%	0.6x	4th	4th
Domain Partners VII, L.P.	2006	-0.3%	1.0x	2nd	2nd
Great Hill Equity Partners III, L.P.	2006	-2.9%	0.9x	3rd	3rd
Highland Capital Partners VII, L.P.	2006	-2.1%	1.0x	3rd	3rd
HLM Venture Partners II, L.P.	2006	-7.5%	0.8x	3rd	3rd
Lightspeed Venture Partners VII, L.P.	2006	0.9%	1.0x	2nd	2nd
M/C Venture Partners VI, L.P.	2006	6.9%	1.2x	1st	1st
New Enterprise Associates 12, L.P.	2006	7.2%	1.2x	1st	1st
Pacven Walden VI, L.P.	2006	-0.1%	1.0x	2nd	2nd
Sierra Ventures IX, L.P.	2006	-6.3%	0.8x	3rd	3rd
Summit Partners PE Fund VII, L.P.	2006	5.9%	1.1x	1st	1st
Syndicated Communications Venture Partners V, L.P.	2006	-16.3%	0.7x	4th	4th
TA Subordinated Debt Partners II, L.P.	2006	6.4%	1.1x	1st	1st
TA X, L.P.	2006	0.3%	1.0x	2nd	2nd
Trinity Ventures IX, L.P.	2006	5.1%	1.1x	1st	1st
Bertram Growth Capital I, L.P.	2007	15.9%	1.4x	1st	1st
Emergence Capital Partners II, L.P.	2007	20.1%	1.4x	1st	1st
GenNx360 Capital Partners, L.P.	2007	14.4%	1.3x	1st	1st
Lighthouse Capital Partners VI, L.P.	2007	3.2%	1.1x	2nd	2nd
Technology Partners Fund VIII, L.P.	2007	13.4%	1.3x	1st	1st

% in 1st Quartile	42%	42%
% in 2nd Quartile	23%	23%
% in 3rd Quartile	23%	23%
% in 4th Quartile	12%	12%

¹ Performance results are presented net of fees and expenses. Benchmark results are sourced from Thomson Reuters (Venture Economics), U.S. Venture Capital, as of December 31, 2010.

² Benchmark results for funds less than five years old are not conclusive.

Benchmark Analysis^{3,4} - As of December 31, 2010
Constitution III Holdings

Fund	Vintage	Net IRR	TVPI	Quartile Ranking	
				Net IRR	TVPI
Battery Ventures VIII, L.P.	2007	8.4%	1.2x	1st	1st
Bertram Growth Capital I, L.P.	2007	17.8%	1.4x	1st	1st
Insight Venture Partners VI, L.P.	2007	14.8%	1.2x	1st	1st
Longitude Venture Partners, L.P.	2007	26.9%	1.5x	1st	1st
New Leaf Ventures II, L.P.	2007	-21.5%	0.7x	4th	4th
Spark Capital II, L.P.	2007	63.4%	2.2x	1st	1st
Technology Crossover Ventures VII(A), L.P.	2007	1.2%	1.0x	2nd	2nd
Battery Ventures VIII Side Fund, L.P.	2008	14.8%	1.2x	1st	1st
Fairhaven Capital Partners, L.P.	2008	-20.2%	0.7x	4th	4th
Great Hill Equity Partners IV, L.P.	2008	-4.3%	1.0x	2nd	2nd
H.I.G. Bayside Debt & LBO Fund II, L.P.	2008	7.8%	1.1x	1st	1st
Lightspeed Venture Partners VIII, L.P.	2008	9.7%	1.1x	1st	1st
Morgenthaler Venture Partners IX, L.P.	2008	-1.6%	1.0x	2nd	2nd
New Enterprise Associates 13, L.P.	2008	3.8%	1.0x	1st	1st
Prospect Venture Partners IV, L.P.	2008	NA	NA	NA	NA
RL Equity Partners Fund, L.P.	2008	8.0%	1.1x	1st	1st
Spectrum Equity Investors VI, L.P.	2008	-62.8%	0.9x	4th	3rd
Summit Partners Europe Private Equity Fund, L.P.	2008	4.3%	1.0x	1st	2nd
Summit Partners Subordinated Debt Fund IV, L.P.	2008	7.0%	1.0x	1st	1st
TL Ventures VII, L.P.	2008	-16.6%	0.8x	4th	4th
U.S. Venture Partners X, L.P.	2008	0.0%	1.0x	NA	NA
Ampersand 2009 Limited Partnership	2009	NA	NA	NA	NA
Undisclosed Partnership*	2009	5.5%	1.0x	NA	NA
Domain Partners VIII, L.P.	2009	11.2%	1.1x	NA	NA
Matrix Partners IX, L.P.	2009	-23.2%	0.9x	NA	NA
Matrix Partners IX/Special Opportunities Fund, L.P.	2009	NA	NA	NA	NA
TA Associates XI, L.P.	2009	-41.3%	0.9x	NA	NA
TA Subordinated Debt Fund III, L.P.	2009	-14.9%	1.0x	NA	NA
Trinity Ventures X, L.P.	2009	13.8%	1.1x	NA	NA
Battery Ventures IX, L.P.	2010	NA	NA	NA	NA
Bertram Growth Capital II, L.P.	2010	-45.2%	0.9x	NA	NA
Highland Capital Partners VIII, L.P.	2010	-23.4%	0.9x	NA	NA
Insight Venture Partners VII, L.P.	2010	NA	NA	NA	NA
Institutional Venture Partners XIII, L.P.	2010	-32.8%	0.9x	NA	NA
Undisclosed Partnership*	2010	NA	NA	NA	NA

% in 1st Quartile	34%	31%
% in 2nd Quartile	9%	11%
% in 3rd Quartile	0%	3%
% in 4th Quartile	11%	9%
Too Early	46%	46%

³ Performance results are presented net of fees and expenses. Benchmark results are sourced from Thomson Reuters (Venture Economics), U.S. Venture Capital, as of December 31, 2010.

⁴ Benchmark results for funds less than five years old are not conclusive.