

Office of the State Treasurer

At a Glance

DENISE L. NAPPIER, State Treasurer
Christine Shaw, Deputy State Treasurer
Established – 1639
Statutory authority – State Constitution
Central office – 55 Elm Street, Hartford, CT 06106
Average number of full-time employees – 131

Assets managed as of June 30, 2014

Pension Plans and Trust Funds:	\$ 29,428,871,271
Short-Term Investment Fund:	\$ 4,211,333,999

Fiduciary assets as of June 30, 2014

Connecticut Higher Education Trust:	\$ 2,567,134,430
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Recurring operating expenses

General Fund:	\$ 3,297,431
Bond Funds:	\$ 4,772,112
Pension Plans and Trust Funds:	\$ 88,082,070
Second Injury Fund:	\$ 7,516,036
Unclaimed Property Fund:	\$ 5,400,611
Short-Term Investment Fund:	\$ 1,980,264

Capital outlay

Investment Funds:	\$ 3,279
Second Injury Fund:	\$ 4,591
Unclaimed Property Fund:	\$ 2,951
Short-Term Investment Fund:	\$ 984

Total abandoned property receipts:	\$ 103,178,699
Amount returned to owners:	\$ 63,772,440

Organizational structure – Executive Office; Cash Management Division; Debt Management Division; Pension Funds Management Division; Second Injury Fund Division; Unclaimed Property Division.

Mission

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

Statutory Authority

The Office of the Treasurer was established following the adoption of the Fundamental Orders of Connecticut in 1638. As described in Article Four, Section 22 of the Connecticut State Constitution, the Treasurer shall receive all funds belonging to the State and disburse the same only as may be directed by law.

Denise L. Nappier was elected as the 82nd state treasurer in 1998, and re-elected in 2002, 2006 and 2010. The first African-American woman elected state treasurer in the United States, first African-American woman elected to statewide office in Connecticut, and only woman elected state treasurer in Connecticut history, Nappier is among Connecticut's longest-serving state treasurers.

The Treasurer is an *ex officio* member of the following boards, commissions and legislatively-mandated committees: Banking Commission, State Bond Commission, Clean Energy Finance and Investment Authority, Connecticut Airport Authority, Connecticut Health and Educational Facilities Authority, Connecticut Higher Education Supplemental Loan Authority, Connecticut Higher Education Trust Advisory Committee, Connecticut Housing Finance Authority, Connecticut Innovations, Connecticut Lottery Corporation Board of Directors, Connecticut Student Loan Foundation, Council of Fiscal Officers, Finance Advisory Committee, Information and Telecommunication Systems Executive Committee, Investment Advisory Council, Standardization Committee, State Employees' Retirement Commission, Student Financial Aid Information Council, and Teachers' Retirement Board.

Public Service

The Treasurer is responsible for the safe custody of the property and money belonging to the State by receiving all money belonging to the State, making disbursements as directed by statute, and managing, borrowing, and investing all funds for the State. State revenue is received into the Treasury each year which covers the State's disbursements. The Treasurer is responsible for prudently investing the State's pension and trust fund assets and the State's and local governments' short-term investments. The Treasurer serves as the fiduciary of the assets of the Connecticut Higher Education Trust. The Treasurer maintains an accurate account of all funds through sophisticated security measures and procedures.

Improvements/Achievements 2013-14

During Fiscal Year 2014, the Office of the Treasurer achieved a number of goals that will benefit state residents and businesses, including:

Connecticut's Largest Pension Funds Posted Fiscal Year-End Net Returns in Excess of 15 Percent as of June 30, 2014 - Comprising over 90 percent of the Connecticut Retirement Plans and Trust Funds ("CRPTF"), the Teachers' Retirement Fund ("TERF") and the State

Employees' Retirement Fund ("SERF") earned 15.67 percent and 15.62 percent 1-year returns and 11.79 percent and 11.90 percent 5-year returns, respectively. The market value of the pension assets for the TERF and SERF was approximately \$16.2 billion and \$10.5 billion, respectively, as of June 30. Investment gains totaled \$3.8 billion. After combined net withdrawals of \$760.4 million, including benefit payments, fees and expenses, the two pension funds jointly had a total value of approximately \$26.7 billion as of June 30 -- a net increase of \$3.1 billion over the previous fiscal year ended June 30, 2013. The overall CRPTF added \$4.2 billion of investment gains to pension assets in Fiscal Year 2014. After net withdrawals, the CRPTF ended the fiscal year with assets of \$29.4 billion -- a \$3.5 billion net increase from the previous year.

***Institutional Investor* magazine selected the CRPTF as winner in the category of Large Public Plan of the Year at its 12th annual Hedge Fund Industry Awards in June 2014** – CRPTF won as a public plan with greater than \$15 billion in assets that demonstrated excellence in absolute return investing in 2013. Connecticut's hedge fund portfolio stood at \$1.11 billion as of December 31, 2013 and returned 11.36 percent in 2013, net of fees, outperforming its customized benchmark by 11.29 percent during 2013, and by 4.07 percent since the program's inception.

Short-Term Investment Fund Top-Ranked in USA, Outperforms Benchmark – The Short-Term Investment Fund ("STIF") was ranked in the top five of similar government investment pools in the nation for the past fiscal year, and has been one of the top two such pools in the nation since the beginning of this calendar year. STIF earned 14 basis points (.14 percent) in Fiscal Year 2014, while its benchmark returned 2 basis points (.02 percent). Consequently, STIF investors earned an additional \$5.7 million in interest income.

Successful Bond Sale Yields Largest Savings in State History – Connecticut taxpayers will save \$94.8 million over the next 11 years from refinancing \$822 million of outstanding state debt. Total savings to taxpayers of all debt refundings and defeasances during the Nappier administration exceeded \$941 million as of June 30, 2014.

Unclaimed Property Division Returned Millions to Connecticut's Rightful Owners - During Fiscal Year 2014, the Unclaimed Property Division returned approximately \$63.8 million to 20,897 rightful owners. During the same period, receipts totaling over \$103 million were deposited into the State's General Fund.

Second Injury Fund Assessment Rates Remained Unchanged – For 16 consecutive years, the Fund has either reduced or maintained the assessment rate for Connecticut businesses – the longest period without an assessment rate increase in the history of the Second Injury Fund. As a result, Connecticut businesses have realized an estimated \$986 million in savings – including \$109 million in projected savings for Fiscal Year 2015.

In addition, since the beginning of Treasurer Nappier's administration in 1999, unfunded liabilities for injured workers have declined 53 percent from \$838 million to \$396 million as of June 30, 2014.

Asset Recovery from Claims and Litigation - Initiated in 2000, the Treasurer's comprehensive asset recovery and loss prevention program has limited contract disputes and

experienced more than a dozen years of recovery of lost assets. The Office's efforts include (i) negotiation of best practices contract terms; (ii) close monitoring and strict compliance of contractual obligations; (iii) pursuit of recovery in class action litigation; and, more recently, (iv) pursuit of asset recovery in foreign jurisdictions. During Fiscal Year 2014, the Office of the Treasurer recovered \$1.4 million in class action lawsuits. The Office has regained \$43.5 million since 2000 by closely monitoring and participating in class action settlements.

Connecticut's College Savings Plan Surpassed \$2.5 Billion in Assets – The Connecticut Higher Education Trust (CHET), the State's 529 college savings plan, continued its steady growth, surpassing \$2.5 billion in assets under management and over 110,000 accounts in two trust plans, CHET Direct (marketed directly to individuals) and CHET Advisor (available through financial advisors). This compares with just over 4,000 accounts and \$18 million in assets under management when Treasurer Nappier took office in 1999. Since inception of CHET, more than \$855 million in qualified withdrawals have been taken to cover college costs for approximately 27,600 students attending nearly every public and private college in Connecticut and several out-of-state schools.

Cash Management Division

Short-Term Investment Fund – For Fiscal Year 2014, the Short-Term Investment Fund (STIF) achieved an annual return of 0.14 percent, exceeding its primary benchmark by 12 basis points, thereby earning an additional \$5.7 million in interest income for Connecticut's agencies, authorities, municipalities and their taxpayers during the fiscal year, while also adding \$650,000 to its reserves.

At the end of Fiscal Year 2014, STIF had \$4.2 billion in assets under management. Municipalities opened 13 new STIF accounts, bringing the total number of municipal accounts to 475. Standard & Poor's reaffirmed STIF's AAAM rating, the highest rating available, and STIF's 2013 Comprehensive Annual Financial Report (CAFR) received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association) of the United States and Canada. During the year, STIF ranked in the top five of similar government investment pools in the nation.

Longer-Term Investment Portfolios – In addition to STIF, the Treasury manages two investment portfolios with longer-term investment horizons for stable balances of the state's operating cash. The funds – STIF Plus and Extended Investment Portfolio – earned an additional \$200,000 for the State during the fiscal year.

Community Bank and Credit Union Initiative – Pursuant to section 3-24k of the Connecticut General Statutes, the Treasury continued the Community Bank and Credit Union Initiative to support Connecticut-based banks and credit unions -- with assets not exceeding \$500 million -- through investments in institutions' certificates of deposit. During Fiscal Year 2014, a monthly competitive bidding process was held through which \$22 million was invested at an average interest rate of 0.16 percent. Since inception, twelve banks and one credit union have signed up for the initiative with \$408.5 million invested at an average yield of 2.44 percent through June 30, 2014.

Cash Management Operations - The Division works with State agencies to improve the efficiency of the State's cash management program by accelerating state agency receipts via electronic payments and the Internet, streamlining the flow of funds between concentration

accounts and individual disbursement accounts to reduce manual processes and increase invested funds, and speeding the flow of bank information to State agencies.

Debt Management Division

During Fiscal Year 2014, the Division oversaw the State's \$20.5 billion outstanding debt portfolio and managed the issuance of \$2.7 billion of new bonds to continue funding of the State's capital programs for local school construction grants, economic development initiatives, transportation infrastructure improvements, clean water fund grants, improvements to the University of Connecticut, and other capital projects. A new initiative was a legislatively approved plan to permanently address the State's long-term General Fund GAAP Deficit which included the issuance of \$560.5 million of General Obligation "GAAP Conversion" bonds. Proceeds were used to fund half of the GAAP Deficit and to commit the State through a bond covenant to paying the balance over time. These projects and other purposes, which help bolster the local economy and improve the State's fiscal standing, were funded at some of the lowest interest rates in State history.

As interest rates remained near historic lows, the Division also refunded outstanding debt through the issuance of \$822.2 million of General Obligation refunding bonds, \$314.3 million of General Obligation Economic Recovery Refunding Notes, and \$144.2 million of University of Connecticut Refunding Bonds. Since January 1999, debt refunding and defeasances completed by the Division produced more than \$941 million in debt service savings over the life of the bonds, as of June 30, 2014.

The Division worked closely with the University of Connecticut on two separate issues of UConn 2000 bonds as well as various leasing and legislative matters; the Connecticut Airport Authority on extending its bonds with its bank investors on favorable terms; and Connecticut Innovations on the issuance of \$18.9 million of bonds for the Bridgeport Steel Point project. Ongoing communications with the credit rating agencies remained active including in-person meetings in New York City. Working with the General Assembly and other interested parties, the Division also contributed to the successful combination of two student loan agencies for efficiencies and synergies.

Pension Funds Management Division

As of June 30, 2014, the Connecticut Retirement Plans and Trust Funds ("CRPTF") had \$29.4 billion in assets under management, with investment gains of \$4.2 billion over the fiscal year.

Over the course of the fiscal year, the Real Estate Fund made commitments in the amount of \$730 million to eight real estate investment opportunities; of the total, \$200 million was pending successful contract negotiations with two funds as of June 30. In the Private Investment Fund, commitments of \$275 million were dedicated to four private equity funds, \$75 million of which was pending the successful contract negotiation with one fund at fiscal year-end. A new Master Custodian contract was executed in Fiscal Year 2014 with BNY Mellon Asset Servicing, a subsidiary of The Bank of New York Mellon Corporation.

The Connecticut Horizon Fund (CHF), an initiative developed by Treasurer Nappier to diversify the management of the state's pension assets and enhance portfolio returns while providing opportunities for minority or women-owned, Connecticut-based and emerging investment management firms, has \$1 billion in assets in its fund-of-funds public market program and a \$155 million private equity allocation.

Corporate Governance / Proxy Voting -- Through shareholder activity, the CRPTF advocated with companies in which it invests for improved corporate governance practices -- from writing letters and engaging in dialogue with companies, to filing shareholder resolutions on its own or through alliances with other institutional investors. Treasurer Nappier also submitted comments to the Securities and Exchange Commission on issues that may affect the CRPTF.

During Fiscal Year 2014, the Treasurer's Office focused on key corporate governance issues, including executive compensation, election of members to boards of directors, climate change, board diversity and shareholder rights. Overall, the CRPTF engaged with more than forty portfolio companies, filed or co-filed twenty-two shareholder resolutions, and reached agreements with seven companies resulting in resolutions being withdrawn at those companies. Fifteen resolutions were voted on at company annual meetings.

The Treasurer's Office is charged with administering three laws which authorize investment restrictions on companies doing business in Northern Ireland, Sudan and Iran. Connecticut's MacBride law, set forth in section 3-13h of the Connecticut General Statutes, is based on the MacBride Principles, which are a corporate code of conduct for companies doing business in Northern Ireland designed to address religious discrimination in the workplace. During Fiscal Year 2014, four companies previously on the "MacBride Prohibited List" were removed, having demonstrated their compliance with Connecticut's MacBride law. As of the end of Fiscal Year 2014, only two companies remain on the MacBride Prohibited List due to their failure to implement the MacBride Principles, and the Treasurer has directed CRPTF's investment managers to refrain from purchasing the following companies: Domino's Pizza Inc. and Yum Brands.

The Treasurer's Office monitored companies doing business in Sudan pursuant to section 3-21e of the Connecticut General Statutes. The Sudan law, adopted in 2006, authorizes the Treasurer to engage companies doing business in Sudan and potentially divest holdings in those companies if their business is contributing to the government's perpetuation of genocide in Sudan. As of the end of Fiscal Year 2014, the Treasurer has directed CRPTF's investment managers to divest from and refrain from further investment in 22 companies: AviChina Industry & Technology and subsidiaries Harbin Dongan Auto Engine Co. and Hafei Aviation Industry Co.; Bharat Heavy Electricals Ltd. (BHEL); China North Industries Group and subsidiaries China North Industries Corp. (a.k.a. Norinco), Norinco International Corporation Ltd., Liaoning Huajin Tongda Chemicals Co. Ltd., Sichuan Nitrocell Co. Ltd., China North Optical-Electrical Technology Co. Ltd., and AKM Industrial Co. Ltd.; China Petroleum and Chemical Corp; CNPC (Hong Kong); Dongfeng Motor Corporation; Jiangxi Hongdu Aviation Industry Ltd.; MISC Bhd; Oil and Natural Gas Corp (ONGC); PetroChina Co. Ltd.; Petronas Capital Ltd.; Sinopec Shanghai Petrochemical Corp.; Sudan Telecom (Sudatel); and Wartsila Oyj. The value of CRPTF's combined investments in those companies at the time of divestment was approximately \$15 million. Two companies, Nam Fatt Corp. and PECD Group, were removed from the restricted investment list in Fiscal Year 2014 because they no longer operate in Sudan.

Connecticut's Iran law, Connecticut General Statutes §3-13g, authorizes the Treasurer to engage with companies doing business in Iran, and potentially divest holdings in such companies if she determines such companies, by their business activities, may be contributing to the Iranian government's development of its nuclear program and its support of global terrorism. In Fiscal

Year 2013, following engagement with fifteen companies, the Treasurer determined that divestment and prohibition on further investment in the following six companies doing business in the energy sector in Iran was warranted: China National Offshore Oil Corporation (China Oilfield Services Ltd.), Daelim Industrial Co. Ltd., Indian Oil Corporation Ltd. (IOCL) Oil India Ltd., Petroleos de Venezuela S.A., and Sasol Ltd. The Treasurer's directive was made in April 2013, and managers were given 120 days to carry it out, which carried it over into Fiscal Year 2014. Prior to the expiration of the divestment period, Sasol sold its business interests in Iran and was removed from the divestment/restricted investment list. In accordance with the Treasurer's directive, managers divested CRPTF holdings in China National Offshore Oil Corp. valued at \$16,040,431, resulting in a realized gain of \$3,270,350. In addition, CRPTF managers divested from holdings in Petroleos de Venezuela valued at \$18,667,133, resulting in a realized gain of \$2,151,774. CRPTF did not have any holdings in the other three companies.

Second Injury Fund Division

The Second Injury Fund provided \$31.4 million in indemnity, medical and settlement payments to injured workers during Fiscal Year 2014. The number of injured workers receiving bi-weekly benefits (indemnity payments only) decreased from 291 in Fiscal Year 2013 to 284.

The Fund's assessment rate will remain at 2.75 percent for insured employers and 3.25 percent for self-insured employers in Fiscal Year 2015. This marks the sixteenth consecutive year in which the Second Injury Fund has either reduced or maintained assessment rates – representing the longest period of time without a rate increase. The cumulative savings to Connecticut businesses since 1999 is estimated at \$986 million -- including \$109 million in projected savings for Fiscal Year 2015.

As of June 30, 2014, the Fund's open claim inventory was 2,957. The unfunded liabilities of the Fund for all open claims as of June 30, 2014 have been reduced by 53 percent from \$838 million to \$396 million from 1999.

Unclaimed Property Division

The Division returned approximately \$63.8 million to 20,897 rightful owners during Fiscal Year 2014. In addition, the division received more than \$103 million in unclaimed property - \$77.5 million in receipts from holders, \$4.4 million from examination of holder records and \$21.2 million from securities sold in accordance with section 3-68a (d) of the Connecticut General Statutes. Section 3-69a (2) of the statutes required the Division to deposit \$11.1 million into the Citizens' Election Fund and the balance into the General Fund.

During Fiscal Year 2014, 1.6 million searches for abandoned property were performed through the website, 108,482 claims were filed and the division responded to 46,671 inquires via the telephone. As of June 30, 2014, the unclaimed property website contained \$615 million in escheated property for 1,167,555 rightful owners.

Connecticut Higher Education Trust (CHET)

The Treasurer is trustee of Connecticut's 529 college savings program, the Connecticut Higher Education Trust ("CHET"). The program features low fees, federal and state tax exemption on earnings for qualified withdrawals, a state tax deduction for contributions, and a wide range of investment options to accommodate different risk tolerances.

CHET continued its strong growth and now has over \$2.5 billion in assets under management and more than 110,600 accounts in two trusts plans, CHET Direct, marketed directly to individuals, and CHET Advisor, available through financial advisors.

TIAA-CREF Tuition Financing, Inc. (“TFI”) manages the CHET Direct sold plan. Under the Direct sold plan, an individual participating in CHET establishes an account in the name of a beneficiary. Contributions may be allocated among eleven investment options. These options provide Connecticut families the opportunity to save for future college expenses, with the flexibility to choose investment vehicles which meet their particular risk tolerance and financial needs. Program features of CHET Direct include a low minimum account opening balance of \$25 (\$15 if using payroll deduction), and the convenience of automated payroll and bank electronic funds transfer for contributions.

During Fiscal Year 2014, CHET Direct increased the number of new accounts over the previous year from 87,933 on June 30, 2013 to 94,438 on June 30, 2014, and total assets reached \$2.3 billion. When Treasurer Nappier assumed office in 1999, CHET had \$18 million in assets and just over 4,000 accounts. Since establishment of CHET Direct, nearly \$840 million in qualified withdrawals have been made, funding the college expenses of roughly 26,685 beneficiaries attending public and private college in Connecticut and beyond.

The Hartford Life Insurance Company manages the CHET Advisor sold plan, which features seventeen investment options -- including one age-based option, five static portfolios, and eleven individual portfolios. CHET Advisor began operating in October 2010, and as of June 30, 2014, there were 16,224 accounts, total assets of \$275 million, and 884 beneficiaries had withdrawn \$15.3 million for college expenses.

Financial Education

Treasurer Nappier is committed to using the Office of the Treasurer as a catalyst for financial education and asset building activities that lead to greater economic security and opportunity for all segments of the population. Since her administration began, the Office has forged partnerships with community organizations, foundations, state agencies and the private sector to support initiatives to increase financial literacy and improve access to financial education tools and resources. The Treasurer has successfully leveraged private sector dollars to ensure that these initiatives are launched, but does not directly operate programs.

Each fiscal year, Treasurer Nappier continues her longstanding commitment to financial education with her ongoing partnership with the YWCA Hartford Region on the statewide Annual Money Conference for Women and with the statewide Bank On Connecticut initiative. The Treasurer’s Office also supports the work of the Connecticut Money School, a free financial education academy that features online registration and classes taught by professional volunteers in community based settings. In addition, the Treasury provides free financial education materials and access to financial education resources on its website.

Information Reported as Required by State Statute

Affirmative Action -- In compliance with section 46a-78 of the Connecticut General Statutes, the Treasurer’s Office annually submits an affirmative action program to the State Commission on Human Rights and Opportunities. The Treasury pledges to make every good-faith effort to achieve all objectives, goals and timetables in its affirmative action plan. Contracts, leases and purchase orders of the Treasurer’s Office contain clauses requiring non-

discrimination, and vendors are required to certify the same. The Treasurer's Office, under the Nappier Administration, has consistently met or exceeded its annual Set-Aside Program goals.