

Office of the State Treasurer

At a Glance

DENISE L. NAPPIER, State Treasurer
Lawrence A. Wilson, (Interim) Deputy State Treasurer
Established – 1639
Statutory authority – State Constitution
Central office – 55 Elm Street, Hartford, CT 06106
Number of full-time employees at June 30, 2016 – 127

Assets managed as of June 30, 2016

Pension Plans and Trust Funds:	\$ 29,112,256,580
Short-Term Investment Fund:	\$ 4,897,441,250

Fiduciary assets as of June 30, 2016

Connecticut Higher Education Trust:	\$ 2,885,653,985
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Recurring operating expenses

General Fund:	\$ 3,336,952
Bond Funds:	\$ 1,926,828
Pension Plans and Trust Funds:	\$ 83,744,669
Second Injury Fund:	\$ 8,120,535
Unclaimed Property Fund:	\$ 5,684,291
Short-Term Investment Fund:	\$ 2,035,663

Total abandoned property receipts:	\$ 111,446,654
Amount returned to owners:	\$ 57,568,310

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, 2010 and 2014. 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, Treasurer 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, 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, Connecticut Retirement Security Authority, Connecticut Student Loan Foundation, Finance Advisory Committee, Investment Advisory Council, Standardization Committee, State Employees' Retirement Commission, Teachers' Retirement Board, Connecticut Green Bank, Connecticut Port Authority, and Nitrogen Credit Advisory 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 funds for the State. State revenue is received into the Treasury each year which covers the State's disbursements. The Treasurer is principal fiduciary of the Connecticut Retirement Plans and Trust Funds and, as such, is responsible for prudently investing the State's pension and trust fund assets. Also managed by the Treasury is the Short-Term Investment Fund, which serves as an investment vehicle for the operating cash of the State Treasury, state agencies and authorities, municipalities, and other political subdivisions of the State. 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.

Highlights 2015-16

During Fiscal Year 2016, achievements at the Office of the Treasurer that will benefit state residents and businesses included:

Pension Funds Management Ranked 1st in the Nation by Center for Public Integrity –

The Connecticut Treasury was ranked first in the nation for pension funds management with a grade of A by the Center for Public Integrity, as part of its 2015 State Integrity Investigation. The Office received high marks for the transparency of the management of its pension funds, effectiveness of the laws and regulations governing conflicts of interest, and citizen access to disclosures and pension fund documents.

Connecticut's Largest Pension Funds Outperform Benchmarks for Fiscal Year 2016 –

The Connecticut Retirement Plans and Trust Funds (“CRPTF”) generated a net investment return of 0.35 percent for the fiscal year ended June 30, including a 1.15 percent return for the Municipal Employees’ Retirement Fund, which outperformed its investment benchmark of 0.77 percent. The State’s two largest pension funds, the Teachers’ Retirement Fund and the State Employees’ Retirement Fund, also outperformed their benchmarks. They posted net investment results of 0.25 percent and 0.26 percent, respectively, for Fiscal Year 2016, versus their investment benchmarks of -0.06 percent and -0.01 percent. The CRPTF added \$900.2 million of investment gains to pension assets in Fiscal Year 2016. After net withdrawals, the CRPTF ended the fiscal year with assets of \$29.1 billion.

In-State Investment Program Commences -

During Fiscal Year 2016, the first commitment was made to the opportunistic in-state investment program, an initiative of Treasurer Nappier in the Private Investment Fund. The program allocates capital for Connecticut-based companies in various stages of development, from newly formed companies through venture capital investments to more mature projects requiring buyout capital or debt to allow for continued growth or acquisitions. The stated objective of the initiative is to make prudent, profitable investment decisions that would additionally provide a positive economic benefit in the state of Connecticut.

Short-Term Investment Fund Outperforms Benchmark –

The Short-Term Investment Fund (“STIF”) earned 29 basis points (0.29 percent) in Fiscal Year 2016, while its benchmark returned 15 basis points (0.15 percent). Consequently, STIF investors earned an additional \$7 million in interest income. The Fund's superior performance has earned the state and local governments and their taxpayers an additional \$189 million during the Nappier Administration.

Active Debt Refinancing Continues Taxpayer Savings –

Connecticut taxpayers have saved more than \$1.1 billion from refinancing the State’s outstanding debt over the course of the Nappier administration, since 1999. Through June 2016, the Treasurer’s Office has refinanced or defeased \$12.5 billion in bonds through the execution of several financing transactions including General Obligation bonds, Special Tax Obligation bonds for Transportation Infrastructure, Clean Water Fund bonds, University of Connecticut bonds, Bradley Airport bonds, and other bonding programs.

\$1 Billion of General Obligation Bond Authorizations Cancelled or Deferred –

The Treasury worked with the General Assembly and State leaders on bond cancellations and deferments so that the State can stay within its statutory debt limit.

Successful Transportation Bond Sale – A transportation bond sale attracted more than \$440 million in orders from retail investors, the highest level for any bond sale in State history.

Historic Clean Water Funding – The Treasury worked with the Department of Energy and Environmental Protection to complete the largest single grant and loan commitment in the history of the State’s Clean Water program. The Metropolitan District Commission will receive funding of \$313 million over the next seven years for its South Hartford Conveyance Tunnel, a major component of its long-term wastewater control plan designed to protect and improve Connecticut’s water quality.

Unclaimed Property Division Added \$37 Million to General Fund, Returned \$58 Million to Rightful Owners - The Treasury deposited a net \$37 million from the collection of unclaimed property into the General Fund during Fiscal Year 2016. Also, the Office returned more than \$58 million to 15,758 rightful owners.

Second Injury Fund Assessment Rates Remained Unchanged – For 18 consecutive years, the Second Injury 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 Fund. As a result, Connecticut businesses have realized an estimated \$1.2 billion in savings – including \$102 million in projected savings for Fiscal Year 2017.

Unfunded Liabilities for Injured Workers Have Declined -- Since the beginning of Treasurer Nappier’s administration in 1999, unfunded liabilities in the Second Injury Fund for injured workers have declined 57 percent from \$838 million to \$361 million as of June 30, 2016. The Fund’s open claim inventory has dropped from 5,644 to 2,847.

Assets Recovered from Claims and Litigation - During Fiscal Year 2016, the Treasury recovered \$3.3 million in class action lawsuits. The Office has regained \$48.7 million since 2000 by closely monitoring and participating in class action settlements.

Connecticut’s College Savings Plan Surpassed \$2.8 Billion in Assets –The Connecticut Higher Education Trust (CHET), the State’s 529 college savings plan, continued its steady growth, surpassing \$2.8 billion in assets under management and over 130,000 accounts in two plans, CHET Direct (marketed directly to individuals) and CHET Advisor (available through financial advisors). This compares with just over 4,000 accounts and \$18.5 million in assets under management when Treasurer Nappier took office in 1999. Since inception of CHET, approximately \$1.3 billion in qualified withdrawals have been taken to cover college costs for approximately 38,260 students attending nearly every public and private college in Connecticut and several out-of-state schools.

Account Owners’ Fees Decreased as CHET’s Assets Grow to More Than \$2.5 Billion – Now that the CHET Direct plan has surpassed \$2.5 billion in assets, the management fee has been lowered by three basis points, or 20 percent, from 0.15 percent to 0.12 percent. CHET offers some of the lowest fees in the country for a state-sponsored college savings 529 plan.

College Scholarships Awarded -- 100 high school freshmen and 100 high school seniors won scholarships of up to \$2,500 in the third year of the CHET *Advance* Scholarship program. The winners hail from 158 public schools, 19 parochial schools, and 23 independent schools across Connecticut. Since 2013, the Treasury has awarded \$1.5 million in scholarships to 600 students through the CHET *Advance* Scholarship program.

Financial Literacy Summit Held – The Treasurer’s Office and the Connecticut Chapter of the Jump\$tart Coalition held a Financial Literacy Summit in October 2015. The 100 attendees heard Treasurer Nappier state, “Regardless of whether the community is urban or suburban or rural, the challenge is clear: No child in Connecticut should graduate from high school without a sound understanding of the basics of personal financial management.” The Summit brought together policymakers, educators, parents and members of the business community and the public to collaborate on new ways to increase the financial literacy of the State’s students.

Public Retirement Program for Private-Sector Workers – The General Assembly passed legislation in June creating a public retirement program for private-sector employees without access to an employer-sponsored plan. The legislation was recommended by the Connecticut Retirement Security Board (CRSB), co-chaired by State Treasurer Denise L. Nappier and State Comptroller Kevin Lembo. A new authority will plan implementation of the program, which is scheduled to launch in January 2018. Treasurer Nappier and Comptroller Lembo are ex officio members of the authority.

Cash Management Division

Short-Term Investment Fund – For Fiscal Year 2016, the Short-Term Investment Fund (“STIF”) achieved an annual return of 0.29 percent, exceeding its primary benchmark by 14 basis points, thereby earning an additional \$7 million in interest income for Connecticut’s agencies, authorities, municipalities and their taxpayers during the fiscal year, while also adding \$0.9 million to its reserves.

At the end of Fiscal Year 2016, STIF had \$4.9 billion in assets under management. Municipalities opened 6 new STIF accounts, bringing the total number of municipal accounts to 541. Standard & Poor’s reaffirmed STIF’s AAAM rating, the highest rating available, and STIF’s 2015 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.

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 2016, a monthly competitive bidding process was held through which \$22 million was invested at an average interest rate of 0.45 percent. Since inception, twelve banks and one credit union have signed up for the initiative with \$454.5 million invested at an average yield of 2.32 percent through June 30, 2016.

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 2016, the Debt Management Division oversaw the State's \$23.2 billion debt portfolio and managed the issuance of \$3.0 billion of new bonds to fund the State's capital programs including local school construction grants, economic development initiatives, transportation infrastructure improvements, improvements at the University of Connecticut, and Clean Water Fund grants financed through Green Bonds. These projects help bolster the local and state economy and continue to be funded at some of the lowest interest rates in State history.

As interest rates remained low, the Division also refunded outstanding debt through the issuance of \$501.4 million of General Obligation Refunding bonds, \$139.8 million of Special Tax Obligation Refunding bonds, and \$80.4 million of University of Connecticut Refunding bonds. A total of \$1.1 billion in debt service savings will be achieved over the life of the bonds from debt refunding and defeasances completed since January 1, 1999.

Notable in Fiscal Year 2016 was a transportation bond sale that attracted more than \$440 million in orders from retail investors, the highest level for any bond sale in State history. Also notable this fiscal year was the Division's work with the Department of Energy and Environmental Protection regarding the largest single grant and loan commitment in the history of the State's Clean Water program. The Metropolitan District Commission will receive funding of \$313 million over the next seven years for its South Hartford Conveyance Tunnel, a major component of its long-term wastewater control plan designed to protect and improve Connecticut's water quality.

The Division also assisted the Treasurer in working with the legislature, and State leaders on bonding matters including the cancellation and deferment of \$1 billion of General Obligation bond authorizations to allow the State to manage within its statutory debt limit, with the Governor's Transportation Finance Panel on their funding recommendations for the "Let's Go CT!" transportation initiative, and with the University of Connecticut on the issuance of bonds and related matters.

The Division worked closely with State quasi-public agencies on various initiatives including the Connecticut Green Bank on financing options for energy efficiency improvements, the Connecticut Port Authority on transfer of State property and powers, the Connecticut Airport Authority on financing options for an intermodal transportation center, the Capital Region Development Authority on reprogramming bonding for the Connecticut Science Center, and the State's student loan agencies on using available funding to establish a new Connecticut student loan refinancing program.

Pension Funds Management Division

The overall CRPTF generated a net investment return of 0.35 percent for the fiscal year ended June 30, including a 1.15 percent return for the Municipal Employees' Retirement Fund. The Teachers' Retirement Fund ("TERF") and the State Employees' Retirement Fund ("SERF") posted fiscal year-end net returns of 0.25 and 0.26 percent, respectively. TERF and SERF each earned 6.03 percent 3-year returns, 5.71 percent and 5.74 percent 5-year returns and 8.75 percent and 8.83 percent 7-year returns, respectively. The CRPTF added \$900.2 million of investment gains to pension assets in Fiscal Year 2016. After net withdrawals, the CRPTF ended the fiscal year with assets of \$29.1 billion -- a \$540.5 million net decrease from the previous year. The

strongest June 30 investment performances at the asset class level were realized in the private investment and real estate portfolios. For Fiscal Year 2016, the Real Estate Fund returned 11.51 percent, and the Private Investment Fund returned 8.87 percent. The lowest performing asset classes included the Developed Markets International Stock Fund at -7.09 percent and the Emerging Markets International Stock Fund at -7.15 percent. The remaining asset classes performed at -5.32 to 6.01 percent.

Over the course of the fiscal year, the CRPTF made commitments in the amount of \$350 million to four investment opportunities in the Private Investment Fund, commitments of \$250 million were dedicated to three private equity funds, and a commitment of \$100 million was awarded to a Real Estate Fund investment opportunity. Additionally, Treasurer Nappier selected four managers to provide the CRPTF with global investment management services and hired a new Private Investment Fund consultant.

The Connecticut Horizon Fund, 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-owned, women-owned, Connecticut-based and emerging investment management firms, has \$1 billion in assets in its fund-of-funds public market program, a \$155 million private equity allocation and a \$170 million alternative investment allocation.

Corporate Governance / Proxy Voting -- The CRPTF advocates in various ways 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 and through alliances with other institutional investors. Treasurer Nappier also submits comments to the Securities and Exchange Commission on issues that may affect the CRPTF.

During Fiscal Year 2016, the corporate governance issues focused on by the Treasurer's Office included executive compensation, the quality and diversity of boards of directors, shareholder rights, and minimizing climate change risk. The CRPTF filed or co-filed shareholder resolutions with eighteen portfolio companies. Six proposals were withdrawn following successful engagement with the affected companies and twelve went to a shareholder vote. One of the most successful votes was the 96 percent majority received at the Anglo American annual meeting on a resolution calling for annual reporting on climate change risks and opportunities. Shareholders at three companies gave majority support to resolutions to allow greater access to the proxy ballot. On the board diversity front, the CRPTF withdrew resolutions at two companies after they agreed to amend their corporate governance guidelines or nominating charter to incorporate diversity considerations when selecting board nominees.

International Investment Restrictions - 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 2016, the CRPTF restricted its managers from investing in two companies for failure to adopt these principles: Domino's Pizza Inc. and Yum Brands, Inc.

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 2016, the Treasurer's Office prohibits direct investment in seventeen (17) companies: AKM Industrial Co. Ltd.; Bharat Heavy Electricals Ltd.; China North Industries Corporation a.k.a. NORINCO; China North Industries Group; China Petroleum and Chemical Corp.; CNPC (Hong Kong); Dongfeng Motor Corporation; Jiangxi Hongdu Aviation Industry Ltd.; MISC Bhd; NORINCO International Corporation Ltd.; North Huajin Chemical Industries Co. Ltd.; North Navigation Control Technology Co. Ltd.; Oil and Natural Gas Corp.; PetroChina Co. Ltd.; Petronas Capital Ltd.; Sichuan Nitrocell Co. Ltd.; and Sinopec Shanghai Petrochemical Corp.

Connecticut's Iran law, Connecticut General Statutes Section 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. As of the end of Fiscal Year 2016, the Treasurer's Office prohibits direct investment in fourteen (14) companies: Bongaigaon Refinery & Petrochemicals; Ca La Electricidad de Caracas; Chennai Petroleum Corp.; China Bluechemical; China National Offshore Oil Corporation; China Oilfield Services Ltd.; CNOOC; Daelim Industrial Co. Ltd.; IBP Co. Ltd.; Indian Oil Corporation Ltd.; Lanka Ioc Plc; Offshore Oil Engineering Co.; Oil India Ltd.; and Petroleos de Venezuela S.A.

Second Injury Fund Division

The Second Injury Fund provided \$26.5 million in indemnity, medical and settlement payments to injured workers during Fiscal Year 2016. The number of injured workers receiving bi-weekly benefits (indemnity payments only) decreased from 274 in Fiscal Year 2015 to 260.

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 2017. This marks the eighteenth 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 \$1.2 billion -- including \$102 million in projected savings for Fiscal Year 2017.

As of June 30, 2016, the Fund's open claim inventory was 2,847. The unfunded liabilities of the Fund for all open claims as of June 30, 2016 have been reduced by 57 percent from \$838 million to \$361 million since 1999.

Unclaimed Property Division

The Division returned approximately \$58 million in unclaimed property to 15,758 rightful owners during Fiscal Year 2016. In addition, the division received more than \$111 million in unclaimed property - \$86 million in receipts from holders, \$7 million from examination of holder records and \$18 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 \$11.3 million into the Citizens' Election Fund and the balance into the General Fund.

During Fiscal Year 2016, 2.2 million searches for abandoned property were performed through the website, 5,443 claims were filed and the division responded to 32,274 inquires via

the telephone. As of June 30, 2016, the unclaimed property website contained \$802 million in escheated property for 1,470,669 rightful owners.

Connecticut Higher Education Trust (CHET)

The Treasurer is trustee of the Connecticut Higher Education Trust (“CHET”), Connecticut’s 529 college savings program. 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 steady growth, surpassing \$2.88 billion in assets under management and 130,000 accounts in two trust plans, CHET Direct (marketed directly to individuals) and CHET Advisor (available through financial advisors). Since CHET’s inception, more than \$1.29 billion in qualified withdrawals have been taken to cover college costs for approximately 38,260 students attending nearly every public and private college in Connecticut and several out-of-state schools.

TIAA-CREF Tuition Financing, Inc. (“TFI”) manages the CHET Direct 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 fourteen 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 2016, CHET Direct increased the number of accounts over the previous year from 101,280 on June 30, 2015 to 107,680 on June 30, 2016, and total assets reached \$2.5 billion.

Hartford Funds manages the advisor-sold plan, CHET Advisor, which features eighteen investment options. CHET Advisor began operating in October 2010, and as of June 30, 2016, there were 23,205 accounts with total assets of \$385.7 million.

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.

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. In addition, the Treasury partners with The Connecticut Jump\$tart Coalition, the Connecticut Asset Building Collaborative and the Credit Union League of Connecticut to provide workshops and peer learning classes which highlight financial literacy skills around the state. The Office of the Treasurer also 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.