Office of the State Treasurer

At a Glance

DENISE L. NAPPIER, ***State Treasurer***
Lawrence A. Wilson, ***(Interim) Deputy State Treasurer***
Established **– 1638**
Statutory authority **– State Constitution**
Central office **– 55 Elm Street, Hartford, CT 06106**
Number of full-time employees at June 30, 2018 **– 119**

Assets managed as of June 30, 2018		
Pension Plans and Trust Funds:	**$**	**34,238,684,764**
Short-Term Investment Fund:	**$**	**6,796,418,299**
Other Short-Term Investments:	**$**	**910,298,940**
Fiduciary assets as of June 30, 2018		
Connecticut Higher Education Trust:	**$**	**3,668,573,984**
<u>Recurring operating expenses</u>		
General Fund:	**$**	**2,814,668**
Bond Funds:	**$**	**188,281,777**
Pension Plans and Trust Funds:	**$**	**86,654,934**
Second Injury Fund:	**$**	**7,110,310**
Unclaimed Property Fund:	**$**	**5,491,178**
Short-Term Investment Fund:	**$**	**1,706,501**
Total abandoned property receipts:	**$**	**138,725,122**
Amount returned to owners:	**$**	**58,182,884**

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 the only woman elected State Treasurer in Connecticut history, Treasurer Nappier will be the longest serving Connecticut Treasurer since 1818 at the conclusion of her term in January 2019. She is one of only two individuals to serve as State Treasurer for more than a decade since 1835.

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 Data Analysis Technology Advisory Board, Connecticut Green Bank, 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 Port Authority, Connecticut Retirement Security Authority, Connecticut Student Loan Foundation, Finance Advisory Committee, Investment Advisory Council, Municipal Accountability Review Board, Nitrogen Credit Advisory Board, Pension Sustainability Commission, Standardization Committee, State Employees' Retirement Commission, Teachers' Retirement Board, Teachers' Retirement System Viability Commission, and Transportation Policy Advisory Council. During Fiscal Year 2018, the Treasurer served on the Fiscal Stability and Economic Growth Commission.

Public Service

The Treasurer is the chief elected financial officer of the State. The Office of the Treasurer includes an Executive Office and five divisions, each with specific responsibilities: Pension Funds Management, Cash Management, Debt Management, Second Injury Fund, and Unclaimed Property. 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, which covers the State's disbursements. The Treasurer is principal fiduciary of each of the Connecticut Retirement Plans and Trust Funds ("CRPTF") 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. As the public finance arm of state government, the Treasury is responsible for issuing and managing the State's debt in a prudent and cost-effective manner.

The Executive Office is responsible for overall policy, planning and general administration to enhance the financial integrity and soundness of Treasury operations within each division, providing direction and leadership in carrying out Treasury functions and fostering economic well-being of the state and its citizens and businesses within the confines of fiduciary standards. The Executive Office also administers the Treasury's corporate governance program, which was developed in accordance with its fiduciary duty to protect and grow the value of the State's pension and trust fund investments; promotes, in accordance with state law, environmental, social and governance best practices among the companies in which it invests and with its financial service providers; and serves as a catalyst and advocate for the financial fitness of residents across the state. Other specific activities include legislative affairs, public information and community outreach, legal services, compliance, and financial reporting. In the Treasurer's capacity as Trustee of the Connecticut Higher Education Trust, the state's 529 college savings program, the Executive Office provides overall supervision of this savings program as managed by its financial service providers.

Highlights Fiscal Year 2018

During Fiscal Year 2018, achievements at the Office of the Treasurer that will benefit state residents and businesses included:

Short-Term Investment Fund Outperforms Benchmark – The Short-Term Investment Fund ("STIF") earned 1.39 percent in Fiscal Year 2018, while its benchmark returned 1.27 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 $216 million during the Nappier Administration.

New Tax-Secured Bonding Program Adopted – Treasurer Nappier's proposed Credit Revenue Bond program backed by the withholding portion of the State's personal income tax was approved by the General Assembly. This new bonding program is estimated to achieve savings of nearly $980 million over the next 10 years from higher credit ratings, lower borrowing costs, and a bond structure commonly used for tax-backed revenue bonds. As proposed by the Treasurer, the statute as adopted requires that the annual debt service savings from the new bonding program be dedicated to the State's Budget Reserve Fund, which is expected to improve the credit ratings on the State's General Obligation bonds over time.

Successful Launch of New General Obligation Bond Covenant – In June 2018, the Treasury sold $492.1 million of tax-exempt General Obligation bonds that included - for the first time - a State commitment to four distinct financial measures adopted by the General Assembly to guarantee fiscal restraint over the next five years. Every General Obligation bond issued between now and July 1, 2020 will include a pledge that the State will address its long-term liabilities, rein in spending and borrowing, and rebuild its Budget Reserve Fund. The covenant covers four caps: the “Volatility Cap,” which provides a mechanism for funding the Budget Reserve Fund; the “Revenue Cap,” which constrains the percent of revenues that can be allocated to the budget; the statutory “Spending Cap,” which limits the growth in spending to the growth of personal income or inflation; and the “Bond Cap,” which restricts bond issuance to $1.9 billion per year.

Support for the City of Hartford – Treasurer Nappier, co-chair of the Municipal Accountability Review Board, worked with the Office of Policy and Management on a contract assistance plan for the City of Hartford. The plan commits the State to pay the City’s debt service on its outstanding General Obligation bonds, while requiring that the City manage its finances in a fiscally responsible manner. The agreement is consistent with the State’s bipartisan budget adopted in October 2017. It helps Hartford gain a path toward fiscal sustainability and gives the State strong oversight capabilities.

Connecticut’s Pension Funds Hit All-Time High in Market Value -- The Connecticut Retirement Plans and Trust Funds (“CRPTF”) posted an unaudited net asset value of $34.2 billion as of June 30, 2018, an all-time fiscal year-end record. Accounting for fees and expenses, including $466 million of benefit payments in excess of total contribution receipts, the value grew by more than $1.6 billion during the fiscal year. Overall, during the Nappier Administration, the CRPTF grew its asset base by 73 percent, achieving investment returns in line with the average performance of its peers while taking on less risk. The market value of the CRPTF at the beginning of Fiscal Year 2000 was $19.8 billion and it ended Fiscal Year 2018 at $34.2 billion. The $14.4 billion value increase over this horizon was inclusive of net cash outflows associated with the payment of pension benefits of $12.9 billion and $27.3 billion in net investment returns, or a cumulative return of 198 percent.

Unclaimed Property Division Added $63 Million to General Fund, Returned $58 Million to Rightful Owners – Unclaimed property receipts topped $138.7 million during Fiscal Year 2018, exceeding the $115 million projection by $23 million, or 20 percent, and surpassing the $129.2 million collected the previous fiscal year, Of the total, the Office deposited $63.4 million into the State’s General Fund -- $12.4 million, or 24 percent, more than was projected – and transferred $11.6 million to the Citizens’ Election Fund. The Office returned $58 million in unclaimed assets to 18,472 rightful owners -- $17 million, or 42 percent, more than the previous fiscal year.

Second Injury Fund Assessment Rates Decreased 0.50 Percent – For 20 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 $1.3 billion in savings – including $102 million in projected savings for Fiscal Year 2019.

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 63 percent from $838 million to $307 million as of June 30, 2018. The Fund’s open claim inventory has dropped by more than half, from 5,644 to 2,762.

Assets Recovered from Claims and Litigation – During Fiscal Year 2018, the Treasury recovered $2.5 million in class action lawsuits. The Office has regained $52.8 million since 2000 by closely monitoring and participating in class action settlements.

Connecticut's College Savings Plan Surpassed $3.6 Billion in Assets – The Connecticut Higher Education Trust ("CHET") continued its steady growth, surpassing $3.66 billion in assets under management and more than 152,000 accounts. Since CHET's inception, more than $1.8 billion in qualified withdrawals have been taken to cover college costs for approximately 51,000 students attending nearly every public and private college in Connecticut and several out-of-state schools.

College Scholarships Awarded – During Fiscal Year 2018, 100 high school freshmen and 100 high school seniors won scholarships of up to $2,500 in the fifth year of the CHET *Advance* Scholarship program. The winners hail from all eight counties in Connecticut. Since 2013, the Treasury has awarded $2.5 million in scholarships to 1,000 students through the CHET *Advance* Scholarship program, at no cost to the State.

Financial Reports Receive Excellence Awards – The Government Finance Officers Association ("GFOA") of the United States and Canada awarded the Treasury *Certificates of Achievement for Excellence in Financial Reporting* for two comprehensive annual financial reports for the fiscal year that ended June 30, 2017. The Certificates were awarded for the Comprehensive Annual Financial Reports (or "CAFRs") of the Short-Term Investment Fund -- the $7 billion government investment pool for the State Treasury, state agencies and participating local governments; and the Combined Investment Funds, in which the State's $34 billion pension plans and trust funds are invested. Under the Nappier administration, the Treasury has received the GFOA's annual award each year for its financial reports for STIF and the Combined Investment Funds. The 2017 certificates mark the 18th consecutive year of this distinction.

Cash Management Division

Short-Term Investment Fund – For Fiscal Year 2018, STIF achieved an annual return of 1.39 percent, exceeding its primary benchmark by 12 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 $5.2 million to its reserves.

At the end of Fiscal Year 2018, STIF had $6.8 billion in assets under management. Municipalities opened 17 new STIF accounts, bringing the total number of municipal accounts to 523. Standard & Poor's reaffirmed STIF's AAAm rating, the highest rating available.

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 $1 billion – through investments in their certificates of deposit. During Fiscal Year 2018, a monthly competitive bidding process was held, through which $30.5 million was invested at an average interest rate of 1.69 percent. Since inception, 13 banks and one credit union have signed up for the initiative with $518.9 million invested at an average yield of 2.23 percent through June 30, 2018.

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, increase invested funds, and speed the flow of bank information to State agencies.

During the fiscal year, the Division completed Requests for Proposals processes covering more than 90 percent of banking service fees, resulting in estimated annual savings of $370,000.

Debt Management Division

During Fiscal Year 2018, the Debt Management Division oversaw the State's $25.3 billion debt portfolio and managed the issuance of $2.6 billion of new bonds to fund the State's capital programs, including local school construction, economic development initiatives, transportation infrastructure improvements, improvements at the University of Connecticut, and Clean Water and Drinking Water grants. These projects help to bolster the local economy throughout the State.

The Division also refunded outstanding debt through the issuance of $368.5 million of General Obligation Refunding bonds. A total of $1.2 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 this fiscal year was the adoption by the General Assembly of a major proposal to create an alternative bonding program backed by the withholding portion of the State's personal income tax. The new Credit Revenue Bond program is aimed at achieving higher credit ratings, lower borrowing costs for the State, and a higher Budget Reserve Fund. The State's General Obligation bonds received a credit rating downgrade during the fiscal year. However, there was no change to the Special Tax Obligation and UConn 2000 bond programs.

Pension Funds Management Division

The two largest pension funds among the Connecticut Retirement Plans and Trust Funds ("CRPTF"), the Teachers' Retirement Fund ("TERF") and the State Employees' Retirement Fund ("SERF"), generated net investment results of 7.0 percent and 7.3 percent, respectively, for Fiscal Year 2018. For the longer term period of fifteen years, ending June 30, 2018, TERF and SERF generated net investment results of 7.3 percent and 7.2 percent, in line with the funds' composite benchmark returns of 7.3 percent.

The strongest investment performances at the asset class level were realized in both the public and private equity investment portfolios. For Fiscal Year 2018, returns were: Private Investment Fund, 15.5 percent, well above the public S&P 500 benchmark of 14.4 percent; Mutual Equity Fund, 14.7 percent in line with the Russell 3000 benchmark; and Real Estate

Fund, 8.7 percent, above the NCREIF property index return of 7.1 percent. The Core Fixed Income Fund and the Emerging Market Debt Fund returns were negative for the year, roughly in line with their benchmarks.

Over the course of the fiscal year, the CRPTF made significant new investment commitments totaling in excess of $2 billion, representing 19 opportunities: Nine in the Private Investment Fund, two in the Real Estate Fund, six in the Alternative Investment Fund, including the first commitment to a top quartile global infrastructure fund, and two in the Core Fixed Income Fund. Moreover, restructuring of hedge fund allocations within the Alternative Investment Fund completed during the year will generate annual fee savings in excess of $12 million.

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 more than $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. During the fiscal year, two fixed income fund managers in the public market portion of the program graduated to the broader CRPTF portfolio.

Corporate Governance – During Fiscal Year 2018, the Treasurer's Office focused on a number of corporate governance issues, including the quality and diversity of boards of directors, board oversight of the distribution of opioids and climate change disclosure. The CRPTF filed or co-filed shareholder resolutions with 13 portfolio companies. Eleven proposals were withdrawn following successful engagement with the affected companies and two went to a shareholder vote. The Office began a stepped up engagement with gun manufacturers and distributors, asking them to take reasonable steps to avoid the use of firearms in order to protect their reputation, the company's bottom line and the State's investment.

International Investment Restrictions – The Treasury is charged with administering three laws that 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 2018, 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 2018, the Treasurer's Office prohibited direct investment in 18 companies: Bharat Heavy Electricals Ltd.; China North Industries Group; China North Industries Corporation a.k.a. NORINCO; NORINCO International Cooperation Ltd.; North Huajin Chemical Industries Co. Ltd.; North Navigation Control Technology Co. Ltd.; China Petroleum and Chemical Corp.; CNPC (Hong Kong); Dongfeng Motor Corporation; Jiangxi Hongdu Aviation Industry Ltd.; Oil and Natural Gas Corp.; Mangalore Refinery and

Petrochemicals Ltd.; ONGC Nile Ganga BV, Amsterdam; ONGC Videsh Limited; ONGC Videsh Vankorneft; PetroChina Co. Ltd.; Petronas Capital Ltd.; and Sinopec Shanghai Petrochemical Corp.

Connecticut's Iran law, set forth in 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 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 2018, the Treasurer's Office prohibited direct investment in 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 $26.2 million in indemnity, medical and settlement payments to injured workers during Fiscal Year 2018. The number of injured workers receiving bi-weekly benefits (indemnity payments only) decreased from 248 to 225 during the year.

The Fund decreased the assessment rate for insured employers and self-insured employers by 0.50 percent for Fiscal Year 2019. The rate for insured employers will be reduced from 2.75 percent to 2.25 percent and the rate for self-insured employers will be reduced from 3.25 percent to 2.75 percent. This marks the twentieth 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 in the Fund's history. The cumulative savings to Connecticut businesses since 1999 is estimated at $1.3 billion, including $102 million in projected savings for Fiscal Year 2019.

As of June 30, 2018, the Fund's open claim inventory was 2,762. The unfunded liabilities of the Fund for all open claims as of June 30, 2018 have been reduced by 63 percent from $838 million to $307 million since 1999.

Unclaimed Property Division

The Division returned more than $58 million in unclaimed property to 18,472 rightful owners during Fiscal Year 2018. In addition, the division received $139 million in unclaimed property – $89 million in receipts from holders, $6 million from examination of holder records and $44 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 $11.6 million into the Citizens' Election Fund and the balance into the General Fund.

During Fiscal Year 2018, 2.9 million searches for abandoned property were performed through the unclaimed property website, 25,146 claims were filed and the division responded to 40,339 inquires via the telephone. As of June 30, 2018, the Unclaimed Property website contained $922 million in escheated property for 1.7 million rightful owners.

Connecticut Higher Education Trust (CHET)

CHET surpassed $3.66 billion in assets under management and more than 152,000 accounts in two trust plans: CHET Direct (marketed directly to individuals) and CHET Advisor (available through financial advisors).

TIAA-CREF Tuition Financing, Inc. ("TFI") manages the CHET Direct plan. During Fiscal Year 2018, CHET Direct increased the number of accounts over the previous year from 115,145 on June 30, 2017 to 122,885 on June 30, 2018, and total assets reached $3.1 billion.

The Hartford Funds (formerly known as Hartford Financial Services Group, Inc.) manages the CHET Advisor plan, which began operating in October 2010. As of June 30, 2018, there were 29,824 accounts with total assets of $564 million.

In December, CHET was recognized as one of the top five 529 college savings plans in the nation by Savingforcollege.com, a privately-owned company with a mission to help individuals, professional advisors and providers understand how best to meet the challenge of paying higher education costs. That month, Savingforcollege.com placed a "Top Ten" symbol next to the listing for CHET on its website. CHET ranked fourth in the top ten performing 529 college savings plans for one-year performance, based on Savingforcollege.com rankings through September 30, 2017.

Financial Education

Treasurer Nappier continued her longstanding commitment to financial education during Fiscal Year 2018 with her ongoing partnership with the YWCA Hartford Region on the statewide annual Money Conference for Women. In addition, the Treasury partnered 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 that highlight financial literacy skills around the state. The Treasury also highlighted financial education skills at the annual Latinas and Power Summit in Hartford.

Achieving A Better Life Experience ("ABLE") Trust

During Fiscal Year 2018, the Treasurer's Office and the ABLE Advisory Committee met to consider various options for structuring Connecticut's program, including an evaluation of responses to a request for information issued in April of 2017 for partnership with another state-sponsored plan. In October of 2017, the State of Oregon was named the preferred partner, and the Treasury commenced contract negotiations soon thereafter.

Connecticut sought to negotiate agreements with Oregon's ABLE program administrator, a challenging endeavor given that no funds have been appropriated by the General Assembly to establish a Connecticut ABLE program. This funding challenge proved insurmountable, given that the Treasurer, as trustee of ABLE, bears a fiduciary responsibility to evaluate the program's investment options on behalf of Connecticut residents. The lack of start-up funds meant the Treasurer would have to delegate her fiduciary duties to another state government for purposes of investment selection and management. Not only is this an untenable position for Connecticut's principal fiduciary, it is not clear that the Oregon entity would be willing to accept the delegation. Under the proposed arrangement with the preferred respondent to the request for information, the state ABLE program had neither the financial nor the consulting capacity to evaluate and/or monitor the investment decisions.

Consequently, Connecticut's ABLE Trust has not yet been formally established. There are no ABLE accounts within the Trust, there have been no contributions made or accepted and, as a result, no distributions. Connecticut residents can, however, open ABLE accounts with programs sponsored by any other state.

Information Reported as Required by State Statute

Affirmative Action – The Office of the Treasurer's annual affirmative action program, submitted in compliance with section 46a-78 of the Connecticut General Statutes to the State Commission on Human Rights and Opportunities, was approved by the Commission. 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.