



Remarks Prepared for Delivery
State Treasurer Denise L. Nappier
State Management Advisory Council
Wednesday, November 17, 2004

You know, the words “we live in interesting times” have never been more of an understatement than these past few years in Connecticut, and for state employees, that has been especially true.

Because of the difficulties we’ve faced, and the turmoil we’ve encountered, it has never been more important to have managers with steady hands and a steadfast commitment responsible for the critical services that our fellow citizens depend on. That’s who you are, and that’s what you’ve done, and on behalf of the people of our state, I must commend you for it.

It is absolutely reassuring for our citizens to know, and to see first-hand, that all of you on the front lines of our state government will not waiver in your commitment to do the job well, and do it right. And given all that has gone on, I’d have to say that’s been the silver lining in some stormy clouds.

Now, as State Treasurer, I often find myself in a rather unique position in our state government. As part of my responsibilities as our state’s chief elected fiscal officer, I have the opportunity to do something that people rarely associate with government – I get to **give** people money.

I do that with our unclaimed property program, which is designed to reunite people, and businesses and organizations, with money that’s rightfully theirs, but that they may have forgotten or not realized they were entitled to.

The most recent example is the demutualization process that a number of insurance companies have undertaken in recent years, converting their management organization and turning policy owners into shareholders. That process also meant policy owners were entitled to receive proceeds from the switch, in some cases thousands of dollars. Now, most policy owners were contacted directly by their companies, and received a check with their proceeds. But some couldn’t be located, and after three years, those funds are turned over to the treasury for safekeeping, until the owners come forward.

That’s why last week, we added to our website, a list of 70,000 names of individuals, businesses and organizations that have money coming to them, from the demutualization of MetLife and John Hancock a few years ago. How much money? \$60 Million. So, I don’t know where you all have bought your insurance, but it may be worth a look. And in the coming months, we expect to receive additional unclaimed proceeds, from companies including Anthem and Prudential and Phoenix.

So, if you have a policy with a company that has undergone demutualization, and you haven’t heard from them, call the company to find out if you have some money coming to you. Or check our web site, at www.nameitandclaimit.org. And while you’re there, I should add that we also have what we call The Big List, with more than 445,000 names and \$481 million in unclaimed money. So, I’d encourage you to check The Big List for your name, and spread the word to others to do the same.

Now, I’d like to spend just a few minutes updating you on the state of our pension fund, which I know is something of interest to all of you, and the work we’re doing in the area of corporate governance – making sure that the companies in which we invest are responsible corporate citizens, which certainly benefits the bottom line.

Since I assumed the Office of State Treasurer in 1999, my administration has consistently employed high standards of professionalism in the conduct of our work. And, as you may recall, that’s quite a

contrast with the administration of my predecessor, who was more interested in personal greed than the public welfare.

Today, the Treasury is a very different and a much better place. We're restored integrity, professionalism and trust, with a Treasury Reform plan approved by the legislature that has put a high value on accountability and transparency, disclosure and oversight. The days of political influence peddling in the management of our state funds, are over, and they're not coming back under my watch!

We're allowing people to retire with confidence in their pension security. As you might imagine, I'm a numbers person, and the numbers really tell the story. During the fiscal year that ended June 30, 2004, the pension fund earned a 15.12 percent return on its investments, and the value of the pension fund increased from \$18.3 billion to \$20.2 billion – an increase of \$1.9 billion. Our return was the highest achieved by the fund during the past four years.

So, the good news is that our state pension fund investment program continues to be a reliable source to help finance the state's liability to pay pension benefits, despite current market conditions.

The not-so-good news is that the overall health of the State's pension fund – that is asset to liabilities – continues to be uneven, with liabilities growing at a faster pace, because the State appropriates to the pension fund less than what is recommended by the actuaries. So we have less to invest than we should have, resulting in lost investment opportunity that no prudent portfolio composition can make up. That's something I'll be taking up with the legislature again this year, and a subject that I've already discussed with the Governor.

We're also doing something in our pension fund that many of you have been doing in other aspects of government for quite some time... providing opportunities for small businesses to earn a share of our state's business. Setting aside avenues of opportunity for small businesses is nothing new in government, but in the financial industry, it's been virtually non-existent. We're trying to change that, and give small businesses and Connecticut businesses in the financial industry a chance to utilize their expertise and their qualifications to manage a portion of our overall \$20 billion portfolio.

As we well know, these companies pay taxes here, employ Connecticut workers, and play a pivotal role in the vitality and vibrancy of our economy. So we are in the midst of beginning the Connecticut Horizon Fund, which, for the first time, will provide these companies the chance they've earned to manage a portion of our funds.

Beyond that, we're promoting responsible corporate governance. As owners of companies in which our pension funds are invested, we have a voice and vote in how these companies conduct themselves within the market place, as well as in the communities they rely on for business. Our main objective here is to vigorously pursue our proxy voting rights in a manner that protects our investment, and when necessary, we will engage management and the Board of Directors in dialogue and file shareholder resolutions.

The positions we take, all of which have been approved by the independent Investment Advisory Council, advocate for responsible corporate behavior, the kind of behavior that can affect a company's bottom line, and therefore the value of our shares.

Our agenda includes such issues as protecting shareholder rights, eliminating conflicts of interest in corporate accounting practices, working to end excessive executive compensation, promoting workforce and board diversity and environmental quality.

It also includes a subject we've all been living with for a long time in government, but which the corporate world has been largely foreign to much of the corporate world. That's the area of disclosure, transparency, and accountability... in this case to their shareholders.

We all live with Freedom of Information laws, and the understanding that taxpayers have the right and obligation to know what their government is doing and why. It's really not much different for shareholders – or shouldn't be. We've certainly seen what happens when companies operate in secret and don't provide shareholders with basic information that are necessary to make informed investment decisions. The litany of corporate scandals is much too long, and unfortunately, not yet behind us.

Clearly, much needs to be done to restore investor confidence, but here in Connecticut we have properly positioned ourselves to fulfill our obligation, and we began to do so way before the wave of corporate scandals. And we will continue those efforts, along with other public pension funds around the country that have joined us in recognizing the critical importance of these issues to the long-term health of our funds.

Now, closer to home, there continue to be serious budget issues that must be dealt with in the coming months. We've already done our share to help, and we'll continue to.

As many of you know, while we don't prepare the state budget, we are the agency responsible for issue debt and representing our State before the rating agencies. While I'm not exactly at the table on spending and revenue matters, there are things that my office can and should do to help relieve some of the financial burden that our State is experiencing these days.

Basically, it is all about managing money prudently, saving taxpayers money wherever possible, and contributing savings to the State budget. And in fact, we're doing just that – working hard to save taxpayers money, keep jobs in our state, and fight for the rights of consumers and businesses!

- Just a few months ago, we completed the sale of unclaimed securities, which the legislature predicted would bring in about \$50 million. Well, we exceeded that projection, which was included in the state budget, by \$38 million, and we transferred a total of \$88 million to the state's general fund from that securities liquidation.
- As we all know, we've been in a historically low interest rate environment. At the Treasury, we have taken advantage of this market on the debt side, by timing and structuring our State bonds to lower the cost of borrowing, thereby saving taxpayers more than \$300 billion over the life of the bonds. These savings will reduce budget costs and help taxpayers for the next 16 years.
- We also established the most comprehensive asset recovery and loss prevention program in state history, recovering more than \$1 billion thus far... from the Silvester scandal, and by actively participating in class action suits (in some cases taking the lead in litigation) and going after corporate malfeasance. In 2003 alone, this program collected \$1.8 million for the pension fund, the largest one-year amount in state history.

So, that's some of what we've been doing in the Treasurer's Office. And I emphasize, that's just some of what we've been doing. But I want to get to your questions, so I'll stop here. To put it succinctly, the focus of my attention will continue to be giving the people of Connecticut what they deserve...

- Ensuring investments are safe and secure
- Pursuing initiatives that can make a difference in the lives of families and business of this state
- Open government, public service, and opportunity
- I'm proud of what we've been able to achieve
- And we're not done yet...

Thank you very much, and I'd be happy to answer any questions you may have.