

Connecticut Retirement Plans and Trust Funds Brokerage Program Guidelines

SECURITIES TRADING GUIDELINES FOR GLOBAL EQUITY AND FIXED INCOME INVESTMENT MANAGERS

I. INTRODUCTION

The Office of the State Treasurer seeks to ensure that a wider array of broker-dealers has an opportunity to provide services to the Connecticut Retirement Plans and Trust Funds ("CRPTF"). As a principal fiduciary of the CRPTF, the State Treasurer encourages providers of investment services to the CRPTF to utilize broker-dealers that are owned and actively managed by minorities, women, veterans, or persons with disabilities, persons who identify as LGBTQ+, as well as Connecticut-based (defined as headquartered in the State of Connecticut, or having greater than 500 employees employed in its office(s) in the State of Connecticut), as described more fully below ("Qualified Broker-Dealers").

The investment managers in the CRPTF are obligated by contract to allocate trades in a manner that is: (1) consistent with generally accepted principles of best execution; (2) nondiscriminatory; and (3) in concert with the CRPTF overall objectives, policies and procedures. These Brokerage Program Guidelines for Investment Managers ("Guidelines") encourage best practices in ensuring equal opportunities for Qualified Broker-Dealers to provide brokerage services. At all times, investment managers are responsible for implementing these Guidelines in a manner that results in the best price, execution, and quality of service, while minimizing risk.

II. DEFINITIONS

As used in these Guidelines:

1. "Broker-dealer" means any person or firm engaged in the business of effecting transactions in securities for the account of others or for the person's own account and is licensed or registered under the Connecticut Uniform Securities Act and/or the Financial Industry Regulatory Authority (FINRA), in accordance with the Securities Exchange Act of 1934.
2. "Investment manager" means any person or firm that has contracted with the Office of the State Treasurer to manage the assets of the CRPTF and, in so doing, is given the discretion to purchase or sell securities on behalf of the CRPTF consistent with the style, strategy and parameters of the investment adviser's written investment guidelines, as amended from time to time.
3. "Security" means any note, stock, treasury stock, bond, debenture, evidence of indebtedness, certificate of interest or participation in any profit-sharing agreement, interests of limited partners in a limited partnership, collateral-trust certificate, preorganization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit for a security, certificate of interest or participation in an oil, gas or mining title or lease or in payments out of production under such a title or lease, or, in general, any interest or instrument commonly known as a "security", or any certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing. "Security" does not include any insurance or endowment policy or annuity contract issued by an insurance company which is subject to regulation by the Insurance Commissioner.
4. "Securities trading brokerage commission" means any commission or fee paid on or for a brokered security transaction, a purchase of a security or any other kind of trade of a security.

5. “Qualified Broker-Dealer” means a broker-dealer that meets any one or more of the following criteria, as defined herein:
 - i. A broker-dealer that is at least fifty-one (51) percent owned and actively managed by at least one person that (i) has the power to direct the management and policies of the business and (ii) is a minority, woman, veteran, person with a disability or who identifies as LGBTQ+; or
 - ii. A broker-dealer that is headquartered or employs greater than 500 employees in the State of Connecticut.

A qualified Broker-Dealer must register with the State of Connecticut’s Department of Banking if it is 1) located in Connecticut and transacts securities business with Connecticut residents or with residents of other jurisdictions; or 2) located in another jurisdiction and transacts securities business for Connecticut residents.

6. The following definitions apply to the CRPTF’s Brokerage Program.
 - i. "Minority" means (a) Black Americans, including all persons having origins in any of the Black African racial groups not of Hispanic origin; (b) Hispanic Americans, including all persons of Mexican, Puerto Rican, Cuban, Central or South American, or other Spanish culture or origin, regardless of race; (c) all persons having origins in the Iberian Peninsula, including Portugal, regardless of race; (d) Asian Pacific Americans and Pacific islanders; (e) American Indians and persons having origins in any of the original peoples of North America and maintaining identifiable tribal affiliations through membership and participation or community identification
 - ii. “Veteran” means a person who served in the United States active military, naval, or air service and who was discharged or released under conditions other than dishonorable.
 - iii. “Disability” is as defined by state law in Connecticut General Statutes Section 4a-60(a)(1).

III. SELECTION OF BROKER-DEALERS

The CRPTF investment managers shall use their best efforts to implement best practices that ensure equal opportunities for Qualified Broker-Dealers to provide brokerage services, provided always that all trades are consonant with the principles of best execution.

Furthermore, detailed below on an annualized basis are recommended targets that we believe would be reflective of such equal opportunities. As a general principle, more liquid asset classes will have a higher target.

Consistent with the standards set forth in Section 28(e)(1) of the Securities Exchange Act of 1934, investment managers shall, in the exercise of their fiduciary duty, make a good faith determination that securities trading brokerage commissions are reasonable, taking into account the best net price, as well as the value of the brokerage and research services provided by the broker-dealer, viewed in terms of either that particular transaction or the investment manager's overall responsibilities to the CRPTF. Additional asset classes will be added when necessary.

Further, investment managers shall transact business only with broker dealers that do not discriminate against any person or group of persons on the grounds of race, color, religious creed, age, marital status, national origin, ancestry, sex, gender identity or expression, status as a veteran, status as a victim of domestic violence, intellectual disability, mental disability or physical disability (including, but not limited to, blindness), unless it is shown that such disability prevents performance of the work involved, in any manner prohibited by the laws of the United States or of the State of Connecticut.

1. Domestic equity managers:
 - i. Target approximately: Forty (40) percent of securities trading brokerage commissions paid to Qualified Broker-Dealers as measured on a combined basis.
 - ii. Step out trades will not be counted towards trading done with Qualified Broker-Dealers.
2. Developed market international stock managers:
 - i. Target approximately Twenty (20) percent of securities trading brokerage commissions paid to Qualified Broker-Dealers as measured on a combined basis.
 - ii. Correspondence arrangements will not be counted towards trading done with Qualified Broker-Dealers combined.
3. Emerging market international stock managers:
 - i. Target approximately: Five (5) percent of securities trading brokerage commissions paid to Qualified Broker-Dealers as measured on a combined basis.
4. Core fixed income managers:
 - i. Target approximately: Twenty (20) percent of securities trading volumes directed to Qualified Broker-Dealers as measured on a combined basis.
5. Transition Managers:
 - i. Transition managers will be treated similarly to the asset class managers as detailed above, depending on the asset class where the transition event is occurring.

IV. REPORTING

Each investment manager shall provide a quarterly report to the State Treasurer, within thirty (30) business days after the end of each quarter, and shall certify the following, in a format that illustrates separately for each category of Qualified Broker-Dealers:

1. Total assets traded (quarter-to-date and fiscal year-to-date).
2. Total commissions paid for equities (quarter-to-date and fiscal year-to-date) or total trade volumes for fixed income (quarter-to-date and fiscal year-to-date).
3. For equities, percentage of total commissions paid to the specific Qualified Broker-Dealer category out of all brokerage commissions paid for equities (quarter-to-date and fiscal year-to-date). For fixed income, percentage of total trade volumes using the specific Qualified Broker-Dealer category out of all trade volumes for fixed income (quarter-to-date and fiscal year-to-date).
4. For all broker-dealers not designated as a Qualified Broker-Dealer:
 - i. Total assets traded (quarter-to-date and fiscal year-to-date);
 - ii. For equity, total commissions paid (quarter-to-date and fiscal year-to-date); and
 - iii. For equities, percentage of total commissions paid (quarter-to-date and fiscal year-to-date). For fixed income, percentage of total trade volumes (quarter-to-date and fiscal year-to-date).

In the event that securities trading brokerage commissions are paid in a manner inconsistent with these Guidelines, the investment manager should identify in their report the reasons for any variance and a description of the good faith efforts to meet the targets established in these guidelines.

V. ENGAGEMENT

The Office of the State Treasurer will review the reports and engage with investment managers to discuss opportunities for achieving the goals of this program. If a manager does not meet the approximate targets identified in these guidelines, the Office of the Treasurer will discuss ways for improvement under the program.