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, 2017 **– 119**

Assets managed as of June 30, 2017	
Pension Plans and Trust Funds:	**$ 32,416,383,496**
Short-Term Investment Fund:	**$ 6,413,971,027**
Fiduciary assets as of June 30, 2017	
Connecticut Higher Education Trust:	**$ 3,324,729,169**
<u>Recurring operating expenses</u>	
General Fund:	**$ 2,991,807**
Bond Funds:	**$ 172,356,300**
Pension Plans and Trust Funds:	**$ 80,248,794**
Second Injury Fund:	**$ 7,777,567**
Unclaimed Property Fund:	**$ 6,135,219**
Short-Term Investment Fund:	**$ 1,964,999**
Total abandoned property receipts:	**$ 129,187,152**
Amount returned to owners:	**$ 41,105,448**

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 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 2016–17

During Fiscal Year 2017, achievements at the Office of the Treasurer that will benefit state residents and businesses included:

Connecticut's Largest Pension Funds Outperform Benchmarks for Fiscal Year 2017 – The two largest pension funds in 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 14.4 percent and 14.3 percent, respectively, significantly outperforming their individual benchmarks by 114 and 115 basis points. In addition, they substantially exceeded their actuarial assumed rates of return of 8.0 percent for TERF and 6.9

percent for SERF. Moreover, the two funds outperformed 89 and 87 percent of their peers – public funds with assets in excess of $10 billion – during the year. The overall CRPTF posted an all-time fiscal year-end net asset value record of $32.4 billion. Accounting for fees and expenses, including $793 million of benefit payments in excess of total contribution receipts, the overall portfolio value grew by more than $3 billion during the fiscal year.

In–State Investment Program Continues – During Fiscal Year 2017, additional commitments of $300 million were 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 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 0.61 percent in Fiscal Year 2017, while its benchmark returned 0.49 percent. Consequently, STIF investors earned an additional $6.4 million in interest income. The Fund's superior performance has earned the state and local governments and their taxpayers an additional $208 million during the Nappier Administration.

New Tax-Secured Bonding Program Proposed – Treasurer Nappier proposed an alternative Connecticut bonding program backed by the withholding portion of the State's personal income tax. If approved by the General Assembly, the new bonds are expected to achieve higher credit ratings and lower borrowing costs for the State. The Treasurer proposed that the debt service savings from the new bonding program be dedicated to rebuilding the State's Budget Reserve Fund, which would be expected to improve the credit ratings on the State's general obligation bonds over time.

Lowest Borrowing Rate in Last 50 Years Achieved – In August 2016, the Treasury sold $250 million of tax-exempt General Obligation bonds structured with a 20-year final maturity at an overall interest rate of 2.53 percent, which was the lowest rate in at least a half-century.

First State Revolving Fund Green Bonds with a Second Opinion Review Sold – The Treasury issued $250.0 million of Clean Water Fund Green Bonds that included a second opinion from a global environmental assessment firm, the first State revolving fund bonds in the nation to be issued with such an opinion. Twelve investors placed orders totaling $49.8 million with affirmative consideration of the Green Bond designation.

Unclaimed Property Division Added $71 Million to General Fund, Returned $41 Million to Rightful Owners – The Treasury deposited a net $71 million from the collection of unclaimed property into the General Fund during Fiscal Year 2017. Also, the Office returned more than $41 million to 16,670 rightful owners.

Second Injury Fund Assessment Rates Remained Unchanged – For 19 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 $103 million in projected savings for Fiscal Year 2018.

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 59 percent from $838 million to $340 million as of June 30, 2017. The Fund's open claim inventory has dropped from 5,644 to 2,744.

Assets Recovered from Claims and Litigation – During Fiscal Year 2017, the Treasury recovered $1.6 million in class action lawsuits. The Office has regained $50.3 million since 2000 by closely monitoring and participating in class action settlements.

Connecticut's College Savings Plan Surpassed $3.3 Billion in Assets – The Connecticut Higher Education Trust ("CHET") continued its steady growth, surpassing $3.33 billion in assets under management and more than 140,000 accounts. Since CHET's inception, more than $1.57 billion in qualified withdrawals have been taken to cover college costs for approximately 42,000 students attending nearly every public and private college in Connecticut and several out-of-state schools.

College Scholarships Awarded – One hundred high school freshmen and 100 high school seniors won scholarships of up to $2,500 in the fourth year of the CHET *Advance* Scholarship program. The winners hail from all eight counties in Connecticut. Since 2013, the Treasury has awarded $2 million in scholarships to 800 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 2016. The Summit brought together over 150 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.

Cash Management Division

Short-Term Investment Fund – For Fiscal Year 2017, the Short-Term Investment Fund ("STIF") achieved an annual return of 0.61 percent, exceeding its primary benchmark by 12 basis points, thereby earning an additional $6.4 million in interest income for Connecticut's agencies, authorities, municipalities and their taxpayers during the fiscal year, while also adding $4.7 million to its reserves.

At the end of Fiscal Year 2017, STIF had $6.4 billion in assets under management. Municipalities opened 10 new STIF accounts, bringing the total number of municipal accounts to 546. Standard & Poor's reaffirmed STIF's AAAm rating, the highest rating available, and STIF's 2016 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 $1 billion – through investments in institutions' certificates of deposit. During Fiscal Year 2017, a monthly competitive bidding process was held, through which $33.9 million was invested at an average interest rate of 0.79 percent. Since inception, 13 banks and one credit union have signed up for the initiative with $488.4 million invested at an average yield of 2.25 percent through June 30, 2017.

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. An RFP covering disbursement bank account services was issued during the year and contract negotiations are underway.

Debt Management Division

During Fiscal Year 2017, the Debt Management Division oversaw the State's $24.7 billion debt portfolio and managed the issuance of $3.4 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 Fund loans and grants. These projects help to bolster the local economy and were funded at some of the lowest interest rates in State history.

The Division also refunded outstanding debt through the issuance of $659.3 million of General Obligation Refunding bonds, $68.3 million of Special Tax Obligation Refunding bonds, $34.0 million of University of Connecticut Refunding bonds, and $105.1 million of Clean Water Fund 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 development of a major proposal to create an alternative Connecticut bonding program backed by the withholding portion of the State's personal income tax aimed at achieving higher credit ratings and lower borrowing costs for the State. The State's General Obligation bonds received credit rating downgrades during the fiscal year with some of the rating changes also impacting the Special Tax Obligation and UConn 2000 bonds.

The Division also issued $250.0 million of Clean Water Fund Green Bonds that included a second opinion from a global environmental assessment firm, the first State revolving fund bonds in the nation to be issued with such an opinion.

The Division also worked with the Department of Transportation on bonding matters including drafting legislation to allow the State to access certain federal loans for transportation improvements under the Transportation Infrastructure Finance and Innovation Act, establishment of a transportation lockbox, and assistance on negotiating financial terms related to a major rail car lease.

Interfaces with the State's quasi-public agencies continued as the Division worked with the Connecticut Green Bank on financing the first installation of an Archimedean screw hydropower project in the nation and energy efficiency improvements in State buildings; with the new Connecticut Port Authority on establishing independent operations; with the Connecticut Airport Authority on renewing and extending bank agreements, and financing options for an intermodal transportation center; and with the State's student loan agencies on utilizing available funding to establish a new Connecticut student loan refinancing program, a student financial literacy portal, as well as additional State-backed bond funding for new student loans.

The Division also completed process improvements this past year, including the creation of a new expanded investor relations "BuyCTBonds" website, providing bond investors a convenient one-stop location to obtain information of interest about Connecticut, and establishment of a continuous bond underwriting Request for Proposals to allow firms the opportunity to qualify at any time to participate on State bond sales.

Pension Funds Management Division

The two largest pension funds in 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 14.4 percent and 14.3 percent, respectively; significantly outperforming their individual benchmarks by 114 and 115 basis points. In addition, each of the two funds pointedly surpassed the Fiscal Year 2017 actuarial assumed rates of return of 8.0 percent for TERF and 6.9 percent for SERF. Moreover, the funds outperformed 89 and 87 percent of public pension funds with assets in excess of $10 billion. The combined assets of the two funds represent 90 percent of the CRPTF. The Connecticut Municipal Employees' Retirement Fund also outperformed its benchmark by 98 basis points with an investment return of 13.1 percent for Fiscal Year 2017. The CRPTF posted a net investment return of 14.18 percent for the fiscal year, marking a total net value of $32.4 billion; an all-time fiscal year-end record. Accounting for fees and expenses, including $793 million of benefit payments in excess of total contribution receipts, the overall portfolio value grew by more than $3 billion during the fiscal year.

The strongest June 30 investment performances at the asset class level were realized in the public securities portfolios. For Fiscal Year 2017, the Developed Markets International Stock Fund returned 24.9 percent, the Emerging Markets International Stock Fund returned 23.0 percent and the Mutual Equity Fund returned 19.3 percent. The lowest performing asset classes included the Core Fixed Income Fund at 1.9 percent, the Inflation Linked Bond Fund at 0.7 percent, and the Liquidity Fund at 1.0 percent. The remaining asset classes performed at 7.4 to 12.6 percent**.**

Over the course of the fiscal year, the CRPTF made new investment commitments in the amount of $925 million: $775 million to nine opportunities in the Private Investment Fund and $150 million to three Real Estate Fund investment opportunities. Additionally, Treasurer Nappier selected two consultants to provide general investment consulting services to the CRPTF and to CHET.

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 2017, 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 fourteen portfolio companies. Five proposals were withdrawn following successful engagement with the affected companies, eight went to a shareholder vote and one was omitted by the Securities Exchange Commission.

The resolution calling for annual election of directors at Vista Outdoor, Inc. was among the most successful votes of the 2017 proxy season. The vote to "declassify" the board – to allow for annual election of all directors – received the support of 94 percent of the shareholder vote at the Vista Outdoor, Inc. annual meeting. The Treasurer encourages companies to adopt annual director elections based on empirical evidence that they foster accountability and contribute to long-term shareholder value. As a result of the strong vote by shareholders, the company announced that it will take the necessary steps to declassify its board. Other noteworthy majority votes included a 67 percent vote at the Occidental Petroleum annual meeting on a resolution calling for annual reporting on climate risk and opportunities, representing the first such successful vote at a U.S. oil company. A similar resolution filed at Exxon received 62 percent. Shareholders also gave majority support to resolutions that would allow greater access to the proxy ballot at Nabors Industries (66 percent) and Netflix Inc. (54 percent).

The CRPTF successfully engaged with Wells Fargo and withdrew its resolution calling for an independent board chair at the company when the firm agreed to amend its bylaws to require the separation of the CEO and Chairman positions. On the board diversity front, the CRPTF withdrew resolutions at FleetCor Technologies and Chimera Investment after successful engagement. FleetCor added a woman to its board and Chimera agreed to amend its corporate governance guidelines and nominating charter to incorporate diversity considerations when selecting board nominees.

International Investment Restrictions – The Treasurer's Office 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 2017, 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 2017, 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, 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 2017, the Treasurer's Office prohibited 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 $26.2 million in indemnity, medical and settlement payments to injured workers during Fiscal Year 2017. The number of injured workers receiving bi-weekly benefits (indemnity payments only) decreased from 260 to 248 during the year.

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 2018. This marks the nineteenth 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 $103 million in projected savings for Fiscal Year 2018.

As of June 30, 2017, the Fund's open claim inventory was 2,744. The unfunded liabilities of the Fund for all open claims as of June 30, 2017 have been reduced by 59 percent from $838 million to $340 million since 1999.

Unclaimed Property Division

The Division returned approximately $41 million in unclaimed property to 16,670 rightful owners during Fiscal Year 2017. In addition, the division received more than $129 million in unclaimed property – $88 million in receipts from holders, $12 million from examination of holder records and $29 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 $11.4 million into the Citizens' Election Fund and the balance into the General Fund.

During Fiscal Year 2017, 3.3 million searches for abandoned property were performed through the website, 34,418 claims were filed and the division responded to 35,408 inquires via the telephone. As of June 30, 2017, the Unclaimed Property website contained $809 million in escheated property for 1,459,367 rightful owners.

Connecticut Higher Education Trust

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 $3.33 billion in assets under management and more than 140,000 accounts in two trust plans: CHET Direct (marketed directly to individuals) and CHET Advisor (available through financial advisors). Since CHET's inception, more than $1.57 billion in qualified withdrawals have been taken to cover college costs for approximately 42,000 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, which offers 14 investment options. During Fiscal Year 2017, CHET Direct increased the number of accounts over the previous year from 107,680 on June 30, 2016 to 115,145 on June 30, 2017, and total assets reached $2.85 billion.

The Hartford Financial Services Group, Inc. manages the CHET Advisor plan, which features 18 investment options. CHET Advisor began operating in October 2010, and as of June 30, 2017, there were 25,607 accounts with total assets of $481.1 million.

Financial Education

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 that 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.

Achieving A Better Life Experience ("ABLE") Trust

In 2014, the U.S. Congress passed the Achieving a Better Life Experience ("ABLE") Act, a framework that would allow persons with disabilities who are on Supplemental Security Income ("SSI") to amass assets without putting benefits at risk. The Act created 529(a) accounts as a subset of the 529 college savings program. Many of the tax advantages offered through 529 accounts are available in ABLE 529(a) accounts, including exempting investment earnings from federal and state income taxes. This federal legislation required states to enact their own statutory frameworks for establishing programs for their respective state residents.

Accordingly, in 2015, Connecticut passed Public Act 15-80, *An Act Implementing the Recommendations of the Program Review and Investigations Committee Concerning the Federal Achieving A Better Life Experience Act* ("Public Act"). Mirroring the federal legislation, it allows families to accumulate assets for expenses without affecting state and federally mandated maximums to qualify for governmental services. The Public Act designated the State Treasurer as Trustee of the ABLE program with the responsibility to establish a federally qualified ABLE program and administer individual ABLE accounts. The Public Act was passed without an appropriation of funds for implementation.

In order to implement an ABLE Program in Connecticut that meets the objectives of the federal mandate, the Office of the Treasurer formed an advisory committee comprised of 20 volunteers with relevant experience, including those who have served as disability advocates, representatives of key constituencies and organizations for persons with disabilities, and leaders of state agencies with purview over disability issues. The Treasurer's Office and the advisory committee determined that issuing a Request for Information (RFI) to states already operating an ABLE program that were open to partnering with Connecticut was the most promising step for determining how best to serve Connecticut families. The RFI was issued in April 2016, and as of the end of Fiscal Year 2017, the responses from three states were under consideration

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.