

Office of the State Treasurer



At a Glance

DENISE L. NAPPIER, State Treasurer

Jonathan A. Harris, Deputy State Treasurer

Established – 1639

Statutory authority – State Constitution

**Central office – 55 Elm Street,
Hartford, CT 06106**

Average number of full-time employees – 136

Recurring operating expenses –

General Fund:	\$ 3,259,476
Bond Funds:	\$ 4,702,672
Pension and Trust Funds:	\$ 79,894,780
Second Injury Fund:	\$ 6,933,898
Unclaimed Property Fund:	\$ 6,324,014
Short-Term Investment Fund:	\$ 1,257,812

Capital outlay –

General Fund:	\$ -
Investment Funds:	\$ 2,709
Second Injury Fund:	\$ 4,895
Unclaimed Property Fund:	\$ 3,401
Short-Term Investment Fund:	\$ 847

Assets managed –

Pension and Trust Funds:	\$ 25.2 billion
Short-Term Investment Fund:	\$ 4.5 billion

Total abandoned property receipts: \$ 125,029,194

Amount returned to owners: \$ 51,946,468

Organizational structure – Executive Office; Pension Funds Management Division; Cash Management Division; Debt 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 and 2010. 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, 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, Connecticut Development Authority, Connecticut Health and Educational Facilities Authority, Connecticut Higher Education Supplemental Loan Authority, Connecticut Housing Finance Authority, Finance Advisory Committee, Investment Advisory Council, Connecticut Lottery Corporation, Standardization Committee, State Bond Commission, State Information and Telecommunications Systems Executive Committee, Connecticut Higher Education Trust Advisory Committee, Student Financial Aid Information Council, Connecticut Student Loan Foundation Board, Council of Fiscal Officers, Connecticut Airport Authority, Teachers' Retirement Board, State Employees' Retirement Commission and Clean Energy Finance and Investment Authority.

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 manages, borrows, and invests all funds for the State. State revenue is received into the Treasury each year which covers the State's disbursements. The Treasurer is also responsible for prudently investing the State pension and trust fund assets along with the State, State Agencies and local governments' short-term investments funds and assets in the Connecticut Higher Education Trust. The Treasurer maintains an accurate account of all funds through sophisticated security measures and procedures.

Improvements/Achievements 2010-11

The Office of the Treasurer during fiscal year 2011 achieved a number of substantial goals that will benefit state residents and businesses, including:

Connecticut Pension Fund Investments Grow to \$25.2 Billion – The Connecticut Retirement Plans and Trust Funds (CRPTF) rebounded strongly for the fiscal year ended June 30, 2011, returning an estimated 21%, the highest in 23 years. Net market value increased by \$3.3 billion.

This robust performance was driven by positioning the fund to take advantage of the energetic rebound of the domestic and emerging equities markets, adding \$4.5 billion of market value offset in part by \$1.2 billion in net benefit payments and fees for the period.

The Unclaimed Property Division Returned Millions to Connecticut's Rightful Owners

– During fiscal year 2011, the Unclaimed Property Division returned a record \$52 million to 17,933 rightful owners and received \$68 million in unclaimed property receipts voluntarily reported by holders. Approximately \$57 million has been generated from the sale of unclaimed securities during fiscal year 2011 and deposited into the State's General Fund until the rightful owners come forward to claim their money.

Second Injury Fund Assessment Rates Remain Unchanged – 2011 marks the 13th consecutive year in which the Treasurer has either reduced or maintained the assessment rate for Connecticut businesses – continuing the longest period without an assessment rate increase in the history of the Second Injury Fund. As a result, Connecticut businesses have realized an estimated \$653 million in savings – including \$84 million in projected savings for fiscal year 2012.

In addition, since the beginning of Treasurer Nappier's administration in 1999, unfunded liabilities of injured workers have declined by 50.2% from \$838 million to \$417 million as June 30, 2011.

Bond Sales Produce Debt Service Savings - Significant debt service savings were achieved by refunding existing debt as interest rates continued at historically low levels. During fiscal year 2011, the Debt Management Division issued \$47 million of General Obligation refunding bonds, \$137.7 million of Special Tax Obligation refunding bonds and \$152.4 million of Bradley International Airport refunding bonds. Since January 1999, debt refunding and defeasances have produced \$664 million in debt service savings.

In addition, the Division also completed the issuance of \$1.4 billion of bonds for capital projects and other purposes including the largest (\$600 million) transportation infrastructure bond issue at the lowest interest cost in the history of the Special Tax Obligation bond program.

Asset Recovery from Claims and Litigation - In 2000, the Treasurer initiated a multi-faceted effort to prevent losses due to the malfeasance of others and, whenever possible, to recover lost assets. This effort has included the negotiation of best practices contract terms, monitoring of contract obligations, the filing of claims, and managing Connecticut's fair share of securities litigation cases.

In the fiscal year that ended June 30, 2011, the Office of the Treasurer recovered \$4.6 million in class action lawsuits. The Treasury has regained a total of \$40.6 million since 2000 by closely monitoring and participating in class action settlements.

Connecticut Higher Education Trust (CHET) Reaches Two All-Time Records - This fiscal-year CHET reached record levels holding \$1.5 billion in assets and having over 100,000 accounts. Specifically, at the close of the 2011 fiscal year, CHET Direct plan had \$1.583 billion in assets under management representing 103,083 accounts, an increase of 8,197 accounts from 2010. This compares with just over 4,000 accounts and \$18 million in assets when Treasurer Nappier took office in 1999. The new CHET Advisor plan begun in October 2010, had 2,616 accounts and \$31.1 million in assets.

As part of the Treasurer's ongoing mission to help Connecticut families plan for college, The Hartford Life Insurance Company was selected after a competitive bid process to launch and manage CHET Advisor, a new advisor-sold 529 college savings program, the first advisor-sold 529 college savings plan sponsored by the state. TIAA-CREF will continue to manage the Connecticut Higher Education Trust (CHET), a direct-sold 529 college savings plan.

Cash Management Division

Short-Term Investment Fund – As of June 30, 2011, the Cash Management Division's Short-Term Investment Fund (STIF) achieved an annual return of 0.23 percent, exceeding its primary benchmark by 15 basis points, thereby earning an additional \$7.4 million in interest income for Connecticut's agencies, authorities, municipalities and their taxpayers during the fiscal year, while also adding \$4.9 million to its reserves.

At the end of the fiscal year 2011, STIF had \$4.5 billion in assets under management. Municipalities opened eight new STIF accounts, bringing the total number of municipal accounts to 660. Standard & Poor's reaffirmed STIF's AAAM rating, the highest rating available, and STIF's annual report received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association.

Longer-Term Investment Portfolios – In addition to STIF, the Treasury manages two investment portfolios with longer-term investment horizons for stable balances of the state's operating cash. The funds – **STIF Plus and the Extended Investment Portfolio** – earned an additional \$0.8 million for the state during the fiscal year.

Community Bank and Credit Union Initiative – Pursuant to CGS 3-24k, the Treasury continues the Community Bank and Credit Union Initiative, which supports Connecticut-based banks and credit unions with assets not exceeding \$500 million through investments in institutions' certificates of deposit. During fiscal year 2011, a monthly competitive bidding process was held through which \$38 million was invested with three community banks and one community credit union at an average interest rate of 0.25 percent and now has 11 banks and one credit union signed up for the initiative with \$376.5 million invested at an average yield of 2.53 percent through June 30, 2011. Monthly competitive bidding continues with nine financial institutions eligible to bid.

Cash Management Operations – The Cash Management 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, speeding the flow of bank information to State agencies, and consolidating bank accounts to reduce service fees and unproductive balances.

Debt Management Division

During fiscal year 2011, the Debt Management Division, which manages \$19.2 billion in total debt outstanding as of fiscal year-end, issued \$1.4 billion of bonds for capital projects and other purposes including the largest transportation bond issue in State history. In addition, the Division issued \$581.2 million of General Obligation bonds to repay maturing General Obligation bond anticipation notes.

As interest rates continued at historically low levels during the year, the Division issued \$47 million of General Obligation refunding bonds, \$137.7 million of Special Tax Obligation refunding bonds and \$152.4 million of Bradley International Airport refunding bonds. Since

January 1999, debt refunding and defeasances completed by the Treasury will produced more than \$664 million in debt service savings over the life of the bonds.

Financing plans developed in close coordination with other state agencies to maximize the use of federal stimulus funds and bonding opportunities authorized under the 2009 federal stimulus bill were completed during the fiscal year. To date, \$1.9 billion of such bonds have been issued which will result in total State savings of \$223.7 million over the life of the bonds.

The Division continued to focus on several important challenges necessitated by the State's fiscal situation. These included preparing for the sale of economic recovery revenue bonds, legislative repeal of these bonds when the State's fiscal condition improved, presentations to credit rating agencies regarding the State's fiscal situation and unfunded liabilities, and monitoring overall State cash resources.

As in the past, the Division was active during the legislative session. Efforts this session were focused on working closely with the new administration, legislators, and the Department of Transportation on legislation to establish a new Connecticut Airport Authority and on municipal fiscal matters and funding for major clean water projects in the State.

Process improvements this past year included development of a new monthly report to the Legislature on cash and debt balances, as well as improvements to the State's bondholder disclosure.

The Division continued to work closely with other major State agencies on financial matters including clean water infrastructure projects in several of Connecticut's major cities, rating agency reviews and refunding options for Bradley International Airport, and expansion of the University of Connecticut's capital improvement program.

The Division is actively involved with several boards and quasi-public agencies on behalf of the Treasurer. The Division provided valuable input to these agencies on matters related to refunding childcare bonds, establishing necessary financing powers for a new authority and input on organizational matters.

Pension Funds Management Division

As of June 30, 2011, the CRPTF had \$25.2 billion in assets under management. The three largest plans, the Connecticut Teachers' Retirement Fund the State Employees' Retirement Fund and the Municipal Employees' Retirement Fund had assets totaling \$14.1 billion, \$9.0 billion, and \$1.7 billion, respectively. One-year performance (net of fees) for Teachers', State Employees', and Municipal Employees' was 20.77 percent, 21.15 percent, and 17.87 percent, respectively.

Late in the fiscal year, the Chief Investment Officer left the Treasury for the private sector and the Deputy Chief Investment Officer was named as the Interim Chief Investment Officer.

The Real Estate Fund committed \$225 million to three real estate funds. The Private Investment Fund committed \$225 million to two private equity funds, and the Alternative Investment Fund committed \$400 million to four absolute return fund of hedge fund managers and \$60 million to a real asset alternative fund. The division conducted two competitive searches for a General Investment Consultant and a Master Custodian Search Consultant.

Corporate Governance / Proxy Voting

Through shareholder activism, the pension fund seeks to protect and improve upon the value of its investments by advocating that companies in which the pension fund invests improve their corporate governance practices. The Office has engaged in corporate governance activities on a number of fronts, from writing letters and engaging in dialogue with companies, to filing

shareholder resolutions on a unilateral basis or through alliances with other institutional investors. The Treasurer also regularly submits comments to the Securities and Exchange Commission (SEC), the U.S. Congress and the stock exchanges on corporate governance policy issues that may affect the CRPTF.

During fiscal year 2011, the Treasurer's Office focused on key corporate governance issues, including executive compensation, election of members to boards of directors, climate change, and shareholder rights. Overall, the CRPTF filed or co-filed 13 shareholder resolutions and engaged with more than 22 companies. Successful engagements led the CRPTF to withdraw eight of the thirteen resolutions.

During 2010, the U.S. Congress considered extensive changes to legislation regarding corporate governance as part of the financial reform legislation that was signed into law by the President on July 21, 2010. The final legislation includes significant enhancements for shareholders. During 2011 regulatory bodies, such as the SEC, developed rules and regulations to implement the Dodd Frank Act, and the Treasurer's Office followed this process and provided comments to the SEC on several of the proposed rules and regulations.

Executive compensation was a major focus of the CRPTF during the 2011 proxy season. The Dodd-Frank Act required all companies to have an advisory vote on executive compensation, referred to as "Say on Pay," beginning in 2011. The CRPTF voted on 980 Say on Pay resolutions from January 1 through July 28, 2011 voting for the resolution on 625 (64%) and against on 355 (36%).

In the area of climate change and related energy issues, the Office continued to take a leading role in the Investor Network on Climate Risk (INCR) and the Global Warming Shareholder Campaign (GWSC). The Treasurer engaged with a number of companies on these issues to set greenhouse gas emission goals and targets for energy use reductions and report to shareholders on progress in achieving those targets. The Treasurer also engaged with companies on other sustainability issues, including water risk.

As part of its corporate governance practices, the Treasurer is charged with enforcing the state law relating to religious non-discrimination practices in the workplace. This law 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. The Principles consist of fair employment and affirmative action protections. The state Statute provides that, as of May 18, 1987, the State Treasurer had a period of three years to divest all state investment in any corporation doing business in Northern Ireland and invest no new state funds in any corporation unless it implemented the MacBride Principles. At the end of Fiscal Year 2011, six companies still remain on the "MacBride Prohibited List" and the Treasurer has directed CRPTF's investment managers to refrain from purchasing the following companies:

- BE – Aerospace
- Crane
- Domino's Pizza Inc.
- Manpower Inc.
- PPG Industries
- Yum Brands

Treasury staff continues to monitor and communicate with companies doing business in Sudan pursuant to Conn. Gen. Stat. §3-21e. Under the law adopted in 2006, the Treasurer has the authority 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. Through the end of Fiscal Year 2011, the Treasurer has directed CRPTF's investment managers to divest from and refrain from further investment in 13 companies:

- Bharat Heavy Electricals Ltd. (BHEL)
- China Petroleum and Chemical Corp.
- CNPC (Hong Kong)
- Dongfeng Motor Corporation
- MISC Bhd
- Nam Fatt Corp
- Oil and Natural Gas Corp (ONGC)
- PECD Group
- PetroChina Co. Ltd.
- Petronas Capital Ltd.
- Sinopec Shanghai Petrochemical Corp.
- Sudan Telecom (Sudatel)
- Wartsila Oyj

The value of CRPTF's combined investments in those companies at the time of divestment was approximately \$15 million. In fiscal year 2011, the Treasurer participated in joint engagement activities with other institutional investors, seeking information from companies in the energy and communications sectors regarding their preparations for the Secession Referendum involving South Sudan. Nineteen companies were contacted during that engagement. In addition, the Treasurer sent direct communications to three companies reported to be involved in the weapons sector.

Unclaimed Property Division

During fiscal year 2011, the Unclaimed Property Division returned a record \$52 million to 17,933 rightful owners, an accomplishment representing the largest amount of dollars returned by the Division. At the same time, the Division received \$68 million in unclaimed property receipts voluntarily reported by holders. Unclaimed Property also sold securities in accordance with Connecticut General Statutes section 3-68a(d). The total deposit to the State General Fund from these sales was \$57 million. Connecticut General Statutes section 3-69a(2) required the Unclaimed Property Division to deposit \$18.3 million into the Citizens' Election Fund and the balance into the General Fund.

During this same period, 56,791 claims were filed, 781,523 searches for abandoned property were performed through the website and 41,822 telephone inquiries were answered. As of June 30, 2011, there was \$578.7 million in escheated property held by the State belonging to 976,115 owners listed on the Office of the Treasurer website.

Second Injury Fund Division

The Second Injury Fund provided \$31.8 million in indemnity, medical and settlement payments to injured workers in fiscal year 2011. The number of injured workers receiving bi-weekly benefits has decreased - 315 compared with 326 a year ago.

The Fund assessment rate will remain at 2.75% for insured employers and 3.25% for self-insured employers in fiscal year 2012. In keeping with a commitment to improve the economic well-being of the State and its businesses, 2011 marks the thirteenth consecutive year in which

the Second Injury Fund has either reduced or maintained the assessment rates. Cumulative savings to Connecticut businesses since 1999 is estimated at \$653 million including \$84 million in projected savings for fiscal year 2012.

As of June 30, 2011, the Fund's open claim inventory is 2,593. During this same period reserves (estimated future payments) for all open claims as of June 30, 2011 are \$415 million, a reduction of \$12 million from a year ago and a reduction of \$421 million (50.2%) from 1999.

Connecticut Higher Education Trust (CHET)

The Treasurer is trustee for Connecticut's 529 college savings program, the Connecticut Higher Education Trust known as CHET, which features low fees, federal and state tax exemption on earnings for qualified withdrawals, a state tax deduction and a wide range of investment options to accommodate different risk tolerances.

Under the Direct sold plan, an individual participating in CHET establishes an Account in the name of a Beneficiary. Contributions may be allocated among eleven 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 need.

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 (EFT) for contributions.

In 2009, the Treasurer issued an RFP for management of the CHET program soliciting proposals for both the current direct sold program, as well as for an Advisor sold program. In 2010, the Treasurer entered into a new management agreement with the current contractor TIAA-CREF Tuition Financing Inc. (TFI) to continue offering the CHET Direct sold plan for a contract period ending March 2015. On August 31, 2010, the Treasurer entered into a management agreement with The Hartford Life Insurance Company to offer an Advisor sold plan. That plan was launched in October 2010. To differentiate the plans, they were re-branded CHET Direct, and CHET Advisor.

Under the Advisor sold plan there are eighteen investment options, including one age based option, five static portfolios, and twelve individual portfolios. The Advisor sold plan has three investment classes: A, C and E. Class A has an up front sales charge, Class C has no up front sales charge but has a contingent deferred sales charge for withdrawals made within one year of deposit, and Class E, which is only available to certain groups associated with Hartford Life has no sales charge or deferred sales charge.

In November 2010, CHET Direct introduced enhancements to the program including significantly reduced fees, new investment options, and adjustments to underlying assets and asset allocation. In June 2010, fees were slightly reduced again when total assets achieved 90 consecutive days above \$1.5 billion.

CHET Direct continued to demonstrate significant new account growth during fiscal year 2011, increasing the number of new accounts over the previous year from 94,886 on June 30, 2010 to 103,083 on June 30, 2011. At the end of fiscal year 2011, not only did the number of account holders grow, total assets reached \$1.583 billion. When Treasurer Nappier took office in 1999, CHET had only \$18 million in assets and just over 4,000 accounts. The level of growth demonstrated since 1999, is reflective of strong new account opening activity and increased contributions from existing account holders who took advantage of the new state tax deduction and other program enhancements. CHET Advisor plan began operating in October 2010, and as of June 30, 2011, there were 2,616 CHET accounts, with total assets of \$31.1 million.

Financial Education

Treasurer Nappier is committed to using the Office of the State 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. The Treasurer's vision is that youth and women in particular, must be financially literate in order to succeed. Therefore, she strongly supports consumer preparedness and education on savings, personal financial education and the need to build assets for long-term security. 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. The Treasurer has successfully leveraged private sector dollars to ensure that these initiatives are launched, but does not directly operate programs.

In fiscal year 2011, the Treasurer continued her longstanding commitment to financial education for women with her continued partnership with the YWCA of the Hartford Region on the statewide annual Money Conference for Women and a statewide "Bank On" planning initiative to increase the participation of under banked populations in mainstream financial banking. The Office also supported the Connecticut Money School, a free financial education academy that features online registration and classes taught by professional volunteers in community based settings. The Office provides free financial education materials and access to financial education resources on the Treasury website, and conducts financial education training and workshops during the year upon request.

This past fiscal year, the Treasurer's Office completed financial education policy work on core competencies in personal financial literacy, credit card and student loan debt.

Information Reported as Required by State Statute

Affirmative Action

In compliance with Connecticut General Statutes Section 46a-78, the Treasurer annually submits an affirmative action program to the State Commission on Human Rights and Opportunities. The Office 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 this administration has consistently met or exceeded annual Set-Aside Program goals.