

Office of the State Treasurer

At a Glance

DENISE L. NAPPIER, State Treasurer
Christine Shaw, Deputy State Treasurer
Established – 1639
Statutory authority – State Constitution
Central office – 55 Elm Street,
Hartford, CT 06106

Average number of full-time employees – 131

Recurring operating expenses –

General Fund:	\$	3,132,182
Bond Funds:	\$	3,492,342
Pension and Trust Funds:	\$	78,741,690
Second Injury Fund:	\$	6,856,027
Unclaimed Property Fund:	\$	5,200,210
Short-Term Investment Fund:	\$	1,479,416

Capital outlay –

General Fund:	\$	0
Investment Funds:	\$	2,879
Second Injury Fund:	\$	5,398
Unclaimed Property Fund:	\$	3,599
Short-Term Investment Fund:	\$	900

Assets managed –

Pension and Trust Funds:	\$	25,940,809,040
Short-Term Investment Fund:	\$	4,477,034,876

Total abandoned property receipts: \$ 115,442,771

Amount returned to owners: \$ 66,959,408

**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 Airport Authority, Connecticut Innovations, 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, 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 managing, borrowing, and investing 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's pension and trust fund assets, the State's and local governments' short-term investments, and assets of the Connecticut Higher Education Trust. The Treasurer maintains an accurate account of all funds through sophisticated security measures and procedures.

Improvements/Achievements 2012-13

During Fiscal Year 2013, the Office of the Treasurer achieved a number of goals that will benefit state residents and businesses, including:

Connecticut's Pension Fund Investments Earned a Robust 1 Year 11.64% Return and a 3 Year 10.14% Return as of June 30, 2013 - The Connecticut Retirement Plans and Trust Funds ("CRPTF"), lifted by vigorous equity markets, both domestic and international, earned \$2.8 billion during Fiscal Year 2013. The CRPTF grew from \$24 billion as of June 30, 2012 to \$25.9 billion as of June 30, 2013, reflecting \$900 million in net beneficiary payments, management fees and other pension fund operating expenses. The CRPTF added a new trust fund during the fiscal year, the Other Post-Employment Benefits ("OPEB") Trust Fund. Plan assets were allocated in a manner that will help provide a reliable source of funds to supplement the State's payment of the costs of OPEB benefits for retirees of the State of Connecticut.

Unclaimed Property Division Returned Millions to Connecticut's Rightful Owners - During Fiscal Year 2013, the Unclaimed Property Division returned approximately \$67 million to 17,852 rightful owners. During the same period, receipts totaling \$115 million were deposited into the State's General Fund.

Second Injury Fund Assessment Rates Remained Unchanged – For 15 consecutive years, the 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 Second Injury Fund. As a result, Connecticut businesses have realized an estimated \$864 million in savings – including \$100 million in projected savings for Fiscal Year 2014.

In addition, since the beginning of Treasurer Nappier's administration in 1999, unfunded liabilities for injured workers have declined 51.2% from \$838 million to \$409 million as of June 30, 2013.

Asset Recovery from Claims and Litigation - Initiated in 2000, the Treasurer's comprehensive asset recovery and loss prevention program has limited contract disputes and experienced more than a dozen years of recovery of lost assets. The Office's efforts include (i) negotiation of best practices contract terms; (ii) close monitoring and strict compliance of contractual obligations; (iii) pursuit of recovery in class action litigation; and, more recently, (iv) pursuit of asset recovery in foreign jurisdictions.

During Fiscal Year 2013, the Office of the Treasurer recovered \$1.4 million in class action lawsuits. The Treasury has regained a total of \$44.0 million since 2000 by closely monitoring and participating in class action settlements.

Connecticut's College Savings Plan Surpassed \$2 Billion in Assets – CHET achieved record growth, with \$2.1 billion in assets under management and over 99,900 accounts in two trusts plans, CHET Direct, marketed directly to individuals, and CHET Advisor, available through financial advisors. This compares with just over 4,000 accounts and \$18 million in assets under management when Treasurer Nappier took office in 1999. CHET Direct achieved record growth, with \$1.9 billion in assets under management and 87,933 accounts. This reflects an increase of 6,225 accounts from June 30, 2012. The CHET Advisor plan, which was launched in October of 2010, grew to 12,061 accounts and \$172.3 million in assets as of June 30, 2013. Since inception of CHET, nearly \$671 million in qualified withdrawals have been made to fund the college expenses of roughly 22,700 beneficiaries attending nearly every public and private college in Connecticut and several out-of-state schools.

Cash Management Division

Short-Term Investment Fund – As of June 30, 2013, the Short-Term Investment Fund (STIF) achieved an annual return of 0.16 percent, exceeding its primary benchmark by 11 basis points, thereby earning an additional \$5.3 million in interest income for Connecticut's agencies, authorities, municipalities and their taxpayers during the fiscal year, while also adding \$2.0 million to its reserves.

At the end of Fiscal Year 2013, STIF had \$4.5 billion in assets under management. Municipalities opened 26 new STIF accounts, bringing the total number of municipal accounts to 695. Standard & Poor's reaffirmed STIF's AAAM rating, the highest rating available, and STIF's 2012 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.

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 Extended Investment Portfolio – earned an additional \$0.6 million for the State during the fiscal year.

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 \$500 million -- through investments in institutions’ certificates of deposit. During Fiscal Year 2013, a monthly competitive bidding process was held through which \$6 million was invested with one community bank at an average interest rate of 0.15 percent. Since inception, six banks and one credit union have signed up for the initiative with \$386.5 million invested at an average yield of 2.52 percent through June 30, 2013. Monthly competitive bidding is ongoing 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 2013, the Debt Management Division oversaw the State’s \$19.3 billion debt portfolio and managed the issuance of \$1.9 billion of bonds to continue funding of the State’s capital programs for local school construction grants, economic development initiatives, transportation infrastructure improvements, clean water fund grants and loans, and other capital projects. These critical infrastructure projects, which help bolster the local economy, were funded at some of the lowest interest rates in State history.

As interest rates remained near historic lows, the Division refunded outstanding debt through the issuance of \$69.8 million of General Obligation refunding bonds, \$125.1 million of Special Tax Obligation refunding bonds and \$37.2 million of Clean Water Fund refunding bonds. Since January 1999, debt refunding and defeasances completed by the Division produced more than \$837 million in debt service savings over the life of the bonds.

The Division worked closely with other State agencies and the legislature on the successful passage of two key bonding proposals during the 2013 legislative session. The first authorized the issuance of bonds to fund a significant portion of the State’s long term General Fund GAAP (“Generally Accepted Accounting Principles”) deficit, and commits the State to funding the balance over time through budget appropriations. The second authorizes the restructuring of outstanding 2009 Economic Recovery Notes.

Key focus remained on clean water infrastructure projects, including a new generator financing program option, finance issues related to statewide transportation improvements, as well as the successful transition of Bradley International Airport and the State’s general aviation

airports to a newly-created independent quasi-public authority. The Division worked closely with the University of Connecticut on expansion and extension of its capital improvement program, refinancing outstanding student fee debt for savings, leasing matters, and assistance in evaluating options for additional water supply sources to the Storrs campus.

The division was active in assisting the Treasurer in commenting on industry matters including the importance of preserving the federal tax exemption for municipal bonds and commenting on rating agency methodologies.

Pension Funds Management Division

As of June 30, 2013, the Connecticut Retirement Plans and Trust Funds (“CRPTF”) had \$25.9 billion in assets under management, with earnings of \$2.8 billion over the fiscal year, and \$900 million in net beneficiary payments, management fees and other pension fund operating expenses. The three largest plans -- the Teachers’ Retirement Fund, the State Employees’ Retirement Fund and the Municipal Employees’ Retirement Fund – had assets totaling \$14.5 billion, \$9.2 billion, and \$1.8 billion, respectively. One-year performance (net of fees) for Teachers’, State Employees’, and Municipal Employees’ was 11.83 percent, 11.90 percent, and 9.6 percent, respectively. The solid performance returns soundly surpassed the actuarial investment return assumptions of 8.5% for the Teachers’ and 8% for the State Employees’ and Municipal Employees’ funds.

Corporate Governance / Proxy Voting

Through shareholder activism, the CRPTF advocated 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 or through alliances with other institutional investors. Treasurer Nappier also submitted 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 2013, the Treasurer’s Office focused on key corporate governance issues, including executive compensation, election of members to boards of directors, climate change, board diversity and shareholder rights. Overall, the CRPTF engaged with more than twenty portfolio companies, filed or co-filed eleven shareholder resolutions, reached agreements with two companies where proposals were subsequently withdrawn; and had 9 resolutions voted on at company annual meetings.

In the area of climate risk and related energy issues, the Treasurer’s Office continued to play a leading role in the Investor Network on Climate Risk (INCR). In 2013, INCR celebrated its 10th anniversary. The organization, co-founded by Treasurer Nappier, has grown from ten members with \$600 billion in assets to more than 100 institutional investors representing in excess of \$11 trillion in assets. Through INCR’s Shareholder Initiative on Climate & Sustainability, the Treasurer’s Office filed shareholder proposals with companies in the oil and gas sector concerning greenhouse gas emissions goals and targets for energy use reductions.

The Treasurer’s Office is charged with administering three laws which 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. As of the end of Fiscal Year 2013, six companies are on the “MacBride Prohibited List” due to their failure to

implement the MacBride Principles. Consequently, the Treasurer has directed CRPTF's investment managers to refrain from purchasing the following companies: BE – Aerospace; Domino's Pizza Inc.; Manpower Inc.; PPG Industries; Sally Beauty Supply Holdings; and Yum Brands.

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. During Fiscal Year 2013, the Treasurer directed CRPTF's investment managers to divest from and refrain from further investment in 24 companies: AviChina Industry & Technology and subsidiaries Harbin Dongan Auto Engine Co. and Hafei Aviation Industry Co.; Bharat Heavy Electricals Ltd. (BHEL); China North Industries Group and subsidiaries China North Industries Corp. (a.k.a. Norinco), Norinco International Corporation Ltd., Liaoning Huajin Tongda Chemicals Co. Ltd., Sichuan Nitrocell Co. Ltd., China North Optical-Electrical Technology Co. Ltd., and AKM Industrial Co. Ltd.; China Petroleum and Chemical Corp; CNPC (Hong Kong); Dongfeng Motor Corporation; Jiangxi Hongdu Aviation Industry Ltd.; 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); and Wartsila Oyj. The value of CRPTF's combined investments in those companies at the time of divestment was approximately \$15 million.

In Fiscal Year 2012, the Treasurer initiated engagement activities under Connecticut's amended Iran law, codified in section 3-13g of the Connecticut General Statutes. The law authorizes the Treasurer to engage with companies doing business in Iran, due to concerns about whether 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. Fifteen companies in the energy sector were contacted, and the engagement culminated with a determination in April 2013 to divest from and prohibit future direct investment in six companies doing business in Iran: China National Offshore Oil Corporation (China Oilfield Services Ltd.), Daelim Industrial Co. Ltd., Indian Oil Corporation Ltd. (IOCL)' Oil India Ltd., Petroleos de Venezuela S.A., and Sasol Ltd. At the time of the determination, the CRPTF had holdings in China National Offshore Oil Corporation, Petroleos de Venezuela and Sasol valued at approximately \$40 million. CRPTF managers were given 120 days to implement the directive to divest, and a final report is due from managers in August 2013.

Unclaimed Property Division

During Fiscal Year 2013, the Unclaimed Property Division returned approximately \$67 million to 17,852 rightful owners. At the same time, the Division received \$99 million in unclaimed property receipts from holders and \$16 million from securities sold in accordance with section 3-68a (d) Connecticut General Statutes. Section 3-69a (2) of the general statutes required the Unclaimed Property Division to deposit \$10.9 million into the Citizens' Election Fund and the balance into the General Fund.

During the fiscal year, 331,406 searches for abandoned property were performed through the Office of the Treasurer's website, 56,695 claims were filed, and 34,743 telephone inquiries were responded to by the Division. As of June 30, 2013, \$624 million in escheated property was held by the State belonging to 1,168,402 rightful owners.

Second Injury Fund Division

The Second Injury Fund provided \$30.9 million in indemnity, medical and settlement payments to injured workers during Fiscal Year 2013. The number of injured workers receiving bi-weekly benefits was reduced from 304 in Fiscal Year 2012 to 291.

The Fund's assessment rate will remain at 2.75% for insured employers and 3.25% for self-insured employers in Fiscal Year 2014. This marks the fifteenth 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. The cumulative savings to Connecticut businesses since 1999 is estimated at \$864 million -- including \$100 million in projected savings for Fiscal Year 2014.

As of June 30, 2013, the Fund's open claim inventory was 2,843. The unfunded liabilities of the Second Injury Fund for all open claims as of June 30, 2013 have been reduced by 51.2% from \$838 million to \$409 million from 1999.

Connecticut Higher Education Trust (CHET)

The Treasurer is trustee for Connecticut's 529 college savings program, the Connecticut Higher Education Trust ("CHET"). The program 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.

TIAA-CREF Tuition Financing, Inc. ("TFI") manages the CHET Direct sold plan. 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 needs. 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 for contributions.

During Fiscal Year 2013, CHET Direct increased the number of new accounts over the previous year from 81,708 on June 30, 2012 to 87,933 on June 30, 2013, and total assets reached \$1.9 billion. When Treasurer Nappier assumed office in 1999, CHET had \$18 million in assets and just over 4,000 accounts. Since establishment of CHET Direct, nearly \$665 million in qualified withdrawals have been made, funding the college expenses of roughly 22,300 beneficiaries attending public and private college in Connecticut and beyond.

The Hartford Life Insurance Company manages the CHET Advisor sold plan, which features seventeen investment options -- including one age-based option, five static portfolios, and eleven individual portfolios. CHET Advisor began operating in October 2010, and as of June 30, 2013, there were 12,061 accounts with total assets of \$172.3 million. As of June 30, 426 beneficiaries have withdrawn \$6.3 million for college expenses.

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. 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 2013, Treasurer Nappier continued her longstanding commitment to financial education with her ongoing partnership with the YWCA of the Hartford Region on the statewide Annual Money Conference for Women and with the statewide Bank On Connecticut initiative. The Treasurer's Office also supports the work of the Connecticut Money School, a free financial education academy that features online registration and classes taught by professional volunteers in community based settings. In addition, the Treasury provides free financial education materials and access to financial education resources on its website.

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.