

Office of the State Treasurer

At a Glance

DENISE L. NAPPIER, State Treasurer
Richard D. Gray, Deputy State Treasurer
Established – 1639
Statutory authority – State Constitution
Central office – 55 Elm Street, Hartford, CT 06106
Average number of full-time employees – 126

Assets managed as of June 30, 2015

Pension Plans and Trust Funds:	\$ 29,652,798,277
Short-Term Investment Fund:	\$ 5,037,544,895

Fiduciary assets as of June 30, 2015

Connecticut Higher Education Trust:	\$ 2,755,321,373
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Recurring operating expenses

General Fund:	\$ 3,276,044
Bond Funds:	\$ 4,159,756
Pension Plans and Trust Funds:	\$ 87,436,549
Second Injury Fund:	\$ 7,820,937
Unclaimed Property Fund:	\$ 6,313,539
Short-Term Investment Fund:	\$ 1,898,603

Total abandoned property receipts:	\$ 147,656,895
Amount returned to owners:	\$ 61,090,933

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 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, State Bond Commission, Clean Energy Finance and Investment Authority, 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 Board, Board of Directors, Connecticut Student Loan Foundation, Council of Fiscal Officers, Finance Advisory Committee, Information and Telecommunication Systems Executive Committee, Investment Advisory Council, Standardization Committee, State Employees' Retirement Commission, Student Financial Aid Information Council, and Teachers' Retirement 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 all 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.

Improvements/Achievements 2014-15

During Fiscal Year 2015, the Office of the Treasurer achieved a number of goals that will benefit state residents and businesses, including:

Returns Reported for Connecticut's Largest Pension Funds, the Teachers' Retirement Fund ("TERF") and the State Employees' Retirement Fund ("SERF") - The TERF and SERF posted Fiscal Year-End Net Returns of 2.79 and 2.84 percent, respectively, as of June 30, 2015. TERF and SERF earned 9.96 percent and 9.99 percent 3-year returns and 9.72 percent and 9.82 percent 5-year returns, respectively. The market value of the pension assets for the TERF and SERF, which comprise over 91 percent of the Connecticut Retirement Plans and Trust Funds ("CRPTF"), was approximately \$16.1 billion and \$10.7 billion, respectively, as of June 30.

Investment gains totaled \$820.3 million. After combined net withdrawals of \$737.9 million, including benefit payments, fees and expenses, the two pension funds jointly had a total value of approximately \$26.8 billion as of June 30 -- a net increase of \$82.4 million over the previous fiscal year ended June 30, 2014. The overall CRPTF added \$900.2 million of investment gains to pension assets in Fiscal Year 2015. After net withdrawals, the CRPTF ended the fiscal year with assets of \$29.7 billion -- a \$223.9 million net increase from the previous year.

The Treasurer's Office presented an opportunistic in-state investment initiative in Fiscal Year 2015 for the Private Investment Fund, allocating capital for Connecticut based companies in various stages of development, from newly formed companies through 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 Top-Ranked in USA, Outperforms Benchmark – The Short-Term Investment Fund (“STIF”) was ranked in the top five of similar government investment pools in the nation for the past fiscal year. STIF earned 15 basis points (.15 percent) in Fiscal Year 2015, while its benchmark returned 3 basis points (.03 percent). Consequently, STIF investors earned an additional \$5.3 million in interest income.

Saving Taxpayers \$1 Billion Through Active Debt Refinancing – Connecticut taxpayers have saved more than \$1 billion from refinancing the State's outstanding debt over the course of the Nappier administration, since 1999. Through June 2015, the Treasurer's Office has refinanced or defeased \$11.9 billion in bonds through the execution of 72 separate financing transactions including General Obligation bonds, Special Tax Obligation bonds for Transportation Infrastructure, Clean Water Fund bonds, University of Connecticut bonds, Bradley Airport bonds, and other bonding programs.

First State of Connecticut “Green Bonds” -- Designed to meet the needs of the growing number of investors interested in investing specifically in green infrastructure, the first issuance was \$60 million of General Obligation bonds in the fall of 2014 followed by a \$250 million “all Green” Clean Water Fund bond issue sold on Earth Day in April 2015.

Unclaimed Property Division Added \$69 Million to General Fund, Returned \$61 Million to Rightful Owners - The Office of the Treasurer deposited a net \$69 million from the collection of unclaimed property into the General Fund during Fiscal Year 2015 – 56 percent more than was projected. Also, the Office returned approximately \$61.1 million to 17,888 rightful owners.

Second Injury Fund Assessment Rates Remained Unchanged – For 17 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 \$1.1 billion in savings – including \$110 million in projected savings for Fiscal Year 2016.

In addition, since the beginning of Treasurer Nappier's administration in 1999, unfunded liabilities for injured workers have declined 54 percent from \$838 million to \$384 million as of June 30, 2015.

Asset Recovery from Claims and Litigation - During Fiscal Year 2015, the Office of the Treasurer recovered \$1.9 million in class action lawsuits. The Office has regained \$45.4 million since 2000 by closely monitoring and participating in class action settlements. The 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.

Connecticut's College Savings Plan Surpassed \$2.7 Billion in Assets – The Connecticut Higher Education Trust (CHET), the State's 529 college savings plan, continued its steady growth, surpassing \$2.7 billion in assets under management and over 121,650 accounts in two 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. Since inception of CHET, more than \$1.1 billion in qualified withdrawals have been taken to cover college costs for approximately 32,635 students attending nearly every public and private college in Connecticut and several out-of-state schools.

Public Retirement Program for Private-Sector Workers Under Consideration – The Connecticut Retirement Security Board (CRSB), co-chaired by State Treasurer Denise L. Nappier and State Comptroller Kevin Lembo, commenced work on its study of a public retirement program for private-sector employees without access to an employer-sponsored plan. The Board held a public hearing in November to solicit comment and, in the spring of 2015, hired Boston College's Center for Retirement Research to conduct a market analysis, and Mercer and Oliver Wyman to design a retirement program, conduct a financial feasibility study and provide general consulting services. During the fiscal year, it received a \$250,000 donation from the Laura and John Arnold Foundation, among other donations, to help fund the study. The Board is required to report its findings by January 1, 2016 and to submit a comprehensive proposal for creation of such a program to the Governor and General Assembly by April 1, 2016.

Cash Management Division

Short-Term Investment Fund – For Fiscal Year 2015, the Short-Term Investment Fund (STIF) achieved an annual return of 0.15 percent, exceeding its primary benchmark by 12 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 \$650,000 to its reserves.

At the end of Fiscal Year 2015, STIF had \$5.0 billion in assets under management. Municipalities opened 102 new STIF accounts, bringing the total number of municipal accounts to 551. Standard & Poor's reaffirmed STIF's AAAM rating, the highest rating available, and STIF's 2014 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. During the year, STIF ranked in the top five of similar government investment pools in the nation.

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 2015, a monthly competitive bidding process was held through which \$24 million was invested at an average interest rate of 0.15 percent. Since inception, twelve banks and one credit union have signed up for the initiative with \$432.5 million invested at an average yield of 2.34 percent through June 30, 2015.

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.

Debt Management Division

During Fiscal Year 2015, the Debt Management Division oversaw the State's \$22.1 billion debt portfolio and managed the issuance of \$3.1 billion of new 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, improvements at the University of Connecticut, and other capital projects. These projects and other purposes, which help bolster the local economy and improve the State's fiscal standing, continue to be funded at some of the lowest interest rates in State history.

Notable this year was the development of the first State of Connecticut "Green Bond" designed to meet the needs of the growing number of investors interested in investing specifically in green infrastructure. The first issuance was \$60 million of General Obligation bonds in the fall of 2014 followed by a \$250 million "all Green" Clean Water Fund bond issue sold on Earth Day in April 2015.

As interest rates remained low, the Division also refunded outstanding debt through the issuance of \$448.4 million of General Obligation Refunding bonds, \$61.6 million of Economic Recovery Refunding Notes, \$131.5 million of Special Tax Obligation Refunding Bonds, and \$34.6 million of University of Connecticut Refunding bonds. In addition, \$61 million of the Economic Recovery Notes were paid down earlier than planned for savings. Of note, this fiscal year, a \$1 billion milestone was reached for total debt service savings achieved over the life of the bonds from debt refunding and defeasances completed since January 1, 1999.

The Division continues to work with the Treasurer, the Legislature, and State leaders on legislative matters. A major focus this year was the Treasurer's proposal to fund projects with General Obligation bond premium to reduce debt levels and future debt service costs. Other areas included serving on a working group that recommended legislation to create the Connecticut Port Authority and advising the Office of Policy and Management on proposed legislation and a Constitutional Amendment requiring transportation-related revenue be expended for transportation purposes.

The Division worked closely with other State agencies on various initiatives including: with the Department of Transportation on the modeling of the "Let's Go CT!" transportation initiative; with 27 State agencies on the implementation of a streamlined tax questionnaire; with the Connecticut Green Bank on financing options for energy efficiency improvements in State buildings; with the University of Connecticut on the issuance of bonds and related matters; with

the Connecticut Health and Educational Facilities Authority on the refunding of Childcare Program bonds including earning a credit rating upgrade; with the Connecticut Airport Authority on completing the transfer of the Bradley Airport parking garage and surface lots from the State; with the Department of Energy and Environmental Protection and the Department of Public Health on providing Clean Water Fund loans for critical local infrastructure projects; and with the State's student loan agencies on utilizing available funding to benefit Connecticut college students.

Ongoing communication with the credit rating agencies remained active this year including in-person meetings with State leaders at the State Capitol.

Pension Funds Management Division

As of June 30, 2015, the Connecticut Retirement Plans and Trust Funds ("CRPTF") had \$29.7 billion in assets under management, with investment gains of \$900.2 million over the previous fiscal year.

Over the course of the fiscal year, the Real Estate Fund made commitments in the amount of \$370 million to five real estate investment opportunities; of the total, \$30 million was pending successful contract negotiations with one fund as of June 30. In the Private Investment Fund, commitments of \$405 million were dedicated to three private equity funds, all of which were pending successful contract negotiations at fiscal year-end. The Alternative Investment Fund made a commitment of \$85 million to one fund; contract negotiations concluded shortly after the June 30 fiscal year. Additionally, the Treasurer's Office issued three Requests for Proposals during the fiscal year, with competitive searches for a Private Investment Fund consultant, Emerging Markets Debt manager and a High Yield Debt manager.

The Connecticut Horizon Fund (CHF), 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 or 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 -- Through shareholder activity, 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 on issues that may affect the CRPTF.

During Fiscal Year 2015, the Treasurer's Office focused on key corporate governance issues, including executive compensation, the quality and diversity of boards of directors, shareholder rights, and climate change planning. The CRPTF filed or co-filed shareholder resolutions with twenty-five portfolio companies. Six proposals were withdrawn following successful engagement with the affected companies, eighteen went to vote and one was omitted by the SEC. One of the most successful majority votes ever was the 98 percent received at the BP annual meeting on a resolution calling for annual reporting on climate change risks and opportunities. Shareholders at four companies supported resolutions to allow greater access to the proxy and a fifth company accepted a proposal to allow access to the proxy for shareholders, prior to the proposal coming to a vote. On the board diversity front, the CRPTF was able to withdraw

resolutions at four companies after the companies agreed to place a woman on the board or amend their nominating charter to incorporate diversity considerations when selecting board nominees

International Investment Restrictions - 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. During Fiscal Year 2015, no companies were added or removed from the "MacBride Prohibited List." As of the end of Fiscal Year 2015, only two companies remain on the MacBride Prohibited List due to their failure to implement the MacBride Principles, and the Treasurer has directed CRPTF's investment managers to refrain from purchasing the following companies: Domino's Pizza, Inc. 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. As of the end of Fiscal Year 2015, the Office of the Treasurer prohibits direct investment in 22 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; Oil and Natural Gas Corp (ONGC); 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.

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 2015, the Office of the Treasurer prohibits direct investment in 14 companies: China National Offshore Oil Corporation and its subsidiaries China Oilfield Services Ltd., China Bluechemical, Offshore Oil Engineering Co., and CNOOC; Daelim Industrial Co. Ltd.; Indian Oil Corporation Ltd. And its subsidiaries IBP Co. Ltd., Chennai Petroleum Corp. Ltd., Lanka Ioc plc, and Bongaigaon Refinery & Petrochemicals; Oil India Ltd.; and Petroleos de Venezuela S.A. and its subsidiary Ca La Electricidad de Caracas.

Second Injury Fund Division

The Second Injury Fund provided \$28.4 million in indemnity, medical and settlement payments to injured workers during Fiscal Year 2015. The number of injured workers receiving bi-weekly benefits (indemnity payments only) decreased from 284 in Fiscal Year 2014 to 274.

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 2016. This marks the seventeenth 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 \$1.1 billion -- including \$110 million in projected savings for Fiscal Year 2016.

As of June 30, 2015, the Fund's open claim inventory was 2,899. The unfunded liabilities of the Fund for all open claims as of June 30, 2015 have been reduced by 54 percent from \$838 million to \$384 million since 1999.

Unclaimed Property Division

The Division returned approximately \$61.1 million to 17,888 rightful owners during Fiscal Year 2015. In addition, the division received more than \$147 million in unclaimed property - \$78.9 million in receipts from holders, \$26.9 million from examination of holder records and \$41.8 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 \$11.3 million into the Citizens' Election Fund and the balance into the General Fund.

During Fiscal Year 2015, 1.6 million searches for abandoned property were performed through the website, 43,014 claims were filed and the division responded to 32,971 inquires via the telephone. As of June 30, 2015, the unclaimed property website contained \$710 million in escheated property for 1,294,659 rightful owners.

Connecticut Higher Education Trust (CHET)

The Treasurer is trustee of 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 for contributions, and a wide range of investment options to accommodate different risk tolerances.

CHET continued its steady growth, surpassing \$2.7 billion in assets under management and over 121,650 accounts in two trust plans, CHET Direct (marketed directly to individuals) and CHET Advisor (available through financial advisors). Since CHET's inception, more than \$1.1 billion in qualified withdrawals have been taken to cover college costs for approximately 32,635 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 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 fourteen 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 2015, CHET Direct increased the number of accounts over the previous year from 94,438 on June 30, 2014 to 101,280 on June 30, 2015, and total assets reached \$2.4 billion.

The Hartford Life Insurance Company manages the CHET Advisor sold plan, which features seventeen investment options. CHET Advisor began operating in October 2010, and as of June

30, 2015, there were 20,370 accounts, total assets of \$340 million, and 1,498 beneficiaries had withdrawn \$30.4 million for college expenses.

Financial Education

Treasurer Nappier is committed to using the Office of the 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.

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 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.