State of Connecticut

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TREASURER

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To The Editor:

The *Journal Inquirer's* editorial of February 12, 2014 entitled *A bit of welcome news on pension fund returns* highlighted a 2013 return of 13.8% and attributed that result to Connecticut's state employee pension funds. While we would agree that the strong investment performance of 2013 was, indeed, welcome news, the returns for the State's largest pension funds were actually higher: both the State Employees Retirement Fund (SERF) and the Teachers Retirement Fund (TRF) earned in excess of 14% for the year.

The 13.8% figure cited by the *Journal Inquirer* applies to the aggregate of 15 individual pension plans and trust funds, known collectively as the Connecticut Retirement Plans and Trust Funds or "CRPTF." These plans and trusts are very distinct with performance characteristics driven by specific strategic asset allocations. For example, the lion's share of the $28.2 billion in CRPTF assets – 91% of the entire CRPTF, to be exact – is comprised of SERF and TRF, which generated net returns of 14.23% and 14.11%, respectively. In addition to these plans, there are other non-pension trusts that are managed quite differently by virtue of several factors, including liquidity needs and statutory requirements. Many of the trusts in the CRPTF are positioned to generate secure streams of income with reduced volatility and, as such, have much lower exposure to equities than the State's pension plans. With U.S. equities among the highest performing global asset classes in 2013, they were a key component of the performance of the State's pension plans and, consequently, an apples-to-apples comparison of the investment performance of pensions and trusts cannot be made.

One last point deserves clarification: the editorial noted that "[t]he real estate partnership investments in hedge funds showed an 8.2 percent return, which was a lesser return than in 2012." It bears noting that real estate and hedge funds are two separate asset classes, each of which posted improved performance in 2013 over the prior year. For calendar year 2013, net of fees, real estate returned 11.52% versus calendar year 2012's result of 8.12%; and hedge funds returned 11.36% in 2013 compared to 4.82% for the same period in 2012.

In closing, whatever asset classes may be in favor during a particular period, Connecticut's pension plans are positioned for the long term with exposure to several asset classes. Our enduring goal is to generate optimum, risk-adjusted returns during a variety of economic and market environments, for the benefit of the 194,000 plan participants and the State's taxpayers.

Sincerely,

Denise

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