OFFICE OF
STATE TREASURER
DENISE L. NAPPIER

NEWS

FOR IMMEDIATE RELEASE
Thursday, December 13, 2001

TREASURY PROGRAM WILL ENCOURAGE BROKERAGE BUSINESS WITH CONNECTICUT FIRMS, WOMEN AND MINORITY-OWNED FIRMS AND EMERGING BUSINESSES

Nappier Says Pilot Program Aims to Boost State Businesses

The State Treasurer's Office will begin a pilot program early next year aimed at keeping more of the Treasury's brokerage business in Connecticut, and providing women and minority owned firms and firms new to the industry with greater opportunities to share in the Treasury's business.

The "Domestic Equity Brokerage Program," proposed by State Treasurer Denise L. Nappier, was unanimously endorsed Wednesday as a six-month pilot program by the state's Investment Advisory Council.

"The program has two important goals," said Nappier. "First, keep more of the Treasury's business right here in Connecticut. Second, provide opportunities for brokerage businesses too often shut out – firms owned by women and minorities, and new firms trying to break into the field. We hope to ensure that a wider array of broker-dealers has an opportunity to earn a portion of our pension fund business."

The initiative encourages investment managers to allocate 30 percent of brokerage commissions to Connecticut-based broker-dealers; 25 percent to minority broker-dealers and/or women broker-dealers; and 5 percent to emerging broker-dealers. The program applies to domestic equity portfolio managers. Broker-dealers will continue to be hired directly by the pension fund's domestic equity portfolio managers, who manage nearly $8 billion of the fund's $20 billion in assets.

"There are many well-qualified firms that can provide financial services without sacrificing one iota of professional quality or increasing our costs. We will absolutely maintain the highest standards of fiscal management, and fully expect we can achieve this result utilizing these guidelines," Nappier said. "We will evaluate the results in six months, and determine if real progress is being made toward achieving these goals."

During the fiscal year ending June 30, 2001, total commissions paid to all brokers for domestic equity trades was $5.9 million. Of this amount, an estimated 25 percent was paid to

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brokers with a registered agent in Connecticut, although the percentage that actually went to Connecticut brokers was even less.

Nappier noted that many of the Fund's managers currently use leading national brokerage houses to execute trades on behalf of the Fund. These brokerage houses have offices in Connecticut, but nonetheless managers assign Connecticut Treasury business to offices outside the state. She's looking to encourage those managers to utilize Connecticut offices for Connecticut Treasury business.

"It is my hope and expectation that this program will reverse a troubling trend in the Fund's brokerage practices, whereby many firms -- in particular, those based in Connecticut -- have been excluded from providing services on behalf of the Fund. As much as possible, they should be keeping that business in Connecticut," Nappier said.

The Nappier proposal would also encourage fund managers to provide women-owned and minority-owned brokerage businesses with an opportunity to participate in Treasury transactions. During the fiscal year ending June 30, 2001, an estimated one percent of total commissions paid for domestic equity trades was earned by minority or women brokers.

Under the plan, domestic equity advisers will be encouraged to allocate a percentage of stock trades in the portfolios they manage for the Treasury to three categories of broker-dealers: (1) Connecticut-based; (2) women and minorities; and (3) emerging. Advisers may select any broker they deem appropriate that meets the definitions of the program. Firms would be required to file quarterly reports outlining their success at meeting the goals.

Pension fund investment managers currently are obligated by contract to allocate trades in a manner that is: (1) consistent with generally accepted principles of best execution; (2) nondiscriminatory; and (3) in concert with the pension fund's overall objectives, policies and procedures. Those requirements will continue, and the new guidelines will set out targets, not requirements.

Nappier noted that for nearly 25 years through 1995 the Connecticut Treasury had an internal trading desk that encouraged investment managers to do business with Connecticut firms. That internal trading capacity was dismantled by former Treasurer Christopher Burnham, at a time when an estimated 50 percent of commissions were paid to Connecticut-based, women or minority brokers. Since then, external portfolio managers have had no guidelines regarding Connecticut-based, emerging or women or minority brokers, and the number of those brokers selected has plummeted. This initiative is aimed at reversing that trend.

"This program will not direct investment managers to select any particular broker," Nappier said, "but will require that managers do their own due diligence in making their selections. Consistent with state law regarding allocating state business, such as the Department of Administrative Service's set-aside program, it will urge companies that we do business with to hire Connecticut companies and work with a wide array of firms. The Treasurer's Office will not select brokerage firms. Those decisions will continue to be made by our investment managers."

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