THE OFFICE OF
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DENISE L. NAPPIER

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Connecticut Pension Fund Posts Year-End Results; Remains Strong in a Turbulent Financial Market

HARTFORD -- State Treasurer Denise L. Nappier said today that Connecticut's pension fund has weathered the storm of a turbulent financial market and remains strong, with solid performance.

The Connecticut Retirement Plans and Trust Funds (CRPTF), the bulk of which is made up of the State Employees' Retirement Fund (SERF), the Teachers' Retirement Fund (TERF), and the Municipal Employees' Retirement Fund (MERF), provides pension fund benefits to more than 160,000 State and municipal workers and retirees. For the five-year period ending June 30, 2008, the SERF, the TERF and the MERF returned 9.43%, 9.56% and 9.17%, respectively. In doing so, they outperformed their customized investment benchmarks that reflect the portfolio's composition, the actuarial assumed rate of 8.50%, and the S&P 500 (a major stock index which for the same time period returned 7.59%).

Despite the market's backlash from the credit crisis over the past fiscal year which sent the S&P 500 tumbling 13.12%, the SERF the TERF and the MERF posted strong performance results. While their value dropped (-4.83%, -4.77% and -4.11%, respectively), this loss was much less significant than that suffered by the three funds' customized benchmarks, which fell by more than 6.00%; as such, the funds outperformed their respective benchmarks by 2.23%, 2.12% and 1.87% respectively. The funds' outperformance relative to their benchmarks saved SERF, TERF, and MERF an additional $219 million, $234 million, and $32 million in market value, respectively. In other words, had the funds just matched their respective benchmarks, the funds would have suffered additional market value lost.

Accounting for the Connecticut Pension Fund's strong relative performance results for the past fiscal year was the fact that the CRPTF continued to adhere to its long-term asset allocation and remained well diversified over several asset classes, including those that

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did well in this market environment, such as inflation-linked bonds, which returned 16.81% and private investments, which returned 13.66%.

"As a public pension fund, we are long-term investors, and it is long-term performance that matters most," Nappier stated. "There is little surprise in the recent reports that U.S.-based pension funds would likely realize a loss for the 2008 fiscal year. However, the Connecticut Pension Fund has remained on course and has fared better than the benchmarks, which reflects our prudent posturing of the portfolios in down markets. It also demonstrates our ongoing fulfillment of the Fund's mission to support the 160,000 Connecticut pension beneficiaries."

New Asset Allocation
During fiscal year 2008, The Office of the State Treasurer embarked upon several major strategic initiatives that continued to position the Connecticut Pension Fund for long-term growth and financial strength. The first was remodeling the Fund's portfolio in line with a newly approved allocation plan to the various asset classes. This plan includes increased exposure to emerging and foreign-developed markets, the creation of a liquidity fund, and the commitment of up to 8% percent to a new alternative investment asset class for non-traditional and evolving strategies. The Connecticut Pension Fund's asset mix is established by the Treasurer with approval by the independent Investment Advisory Council.

Additional $2 Billion Raised
An integral part of the Fund's strategic goal was to strengthen the financial health of the TERF by recently raising $2 billion in the capital markets to reduce a portion of the unfunded liability. The result of this bond transaction will significantly improve the funded status of the teachers' pension plan, lock in favorable borrowing costs, and provide significant cash flow savings over the long term. With interest rates at historically low levels, the TERF was able to lock in a long-term borrowing cost of 5.88%, a rate much lower than the actuarial rate of 8.50% applied as interest cost on the unfunded liability.

According to Nappier, the success of the bond sale represents a significant turning point in how the State has historically appropriated its annual pension contributions at less than what the fund actuary says is needed. Most significant is the bond covenant that requires the State to fund 100% of the annual actuarially recommended contribution to the Teachers' Retirement Fund.

Alternative Investments

"During the past fiscal year, the CRPTF focused its efforts on moving forward judiciously and cautiously to implement the newly created alternative investment asset class in order to strengthen the position of the State's Pension Fund to realize the long-term strategic benefits associated with alternative investments," said Nappier.

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The allocation to the alternative asset class stems from an asset liability study conducted by the CRPTF's third-party consultant which outlined the role of alternatives within the CRPTF. The study notes that given the dynamics of the capital markets, it is important for the CRPTF to maintain the ability to diversify its portfolios by investing in strategies whose return streams can move in a counter-cyclical fashion to the more traditional financial assets of stocks and bonds. The resulting low correlation of these alternative strategies enables better diversification of the investment portfolio, enhancing return potential and lowering risk, which is critical to safeguarding the growth of the asset base during various market conditions – particularly during times of market stress.

Under the new investment plan, the Fund is gearing up to invest in a variety of alternative strategies such as absolute return, real assets, or event-driven strategies, all of which are outside the guidelines of the more traditional funds, but have become an important strategic component of many similar large pension funds in this country.

Working with its new consultant, New England Pension Consultants, the CRPTF is developing guidelines for considering the merits of the range of investment opportunities within the alternative investment space.

"While the Connecticut Pension Fund outperformed its investment objectives during these turbulent market conditions, we cannot lose sight of how alternative investment strategies can provide further protection for the CRPTF in down markets," Nappier said. "My primary objective has always been to safeguard and grow the money, and in an ever-changing global market, the best way to do that is to be responsive and one step ahead of the curve. So, it's imperative that we adjust our course in a way that is prudent enough to weather the downturns and forward-looking enough to take advantage of new growth areas. That combination will help us continue to meet the State's obligation to pay pension benefits and avoid any funding shortfall that our taxpayers would ultimately have to make up."

In addition to MERF, SERF and TERF, the CRPTF comprises assets held on behalf of the Probate Court Retirement Fund, Judges' Retirement Fund, State's Attorneys' Retirement Fund, Soldiers' Sailors' & Marines' Fund, Endowment for the Arts, Agricultural College Fund, Ida Eaton Cotton Fund, Andrew Clark Fund, School Fund, Hopemead Fund, and Police & Fireman's Survivors' Benefit Fund. All together these funds make up about 1.4 percent of the CRPTF.

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