THE OFFICE OF
STATE TREASURER
DENISE L. NAPPIER

NEWS

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STATEMENT BY CONNECTICUT TREASURER DENISE L. NAPPIER REGARDING LEHMAN BROTHERS HOLDINGS INC. AND MERRILL LYNCH & CO.

"Amid these latest upheavals in the markets, the soundness and integrity of Connecticut's $25 billion pension fund remains intact for the members and retirees who depend on these assets for a secure retirement. As long-term investors with a well-diversified portfolio, we are well-positioned to weather this latest turbulence. Like the rest of the country, we are experiencing some fall-off; however, I remain confident we will maintain our value over the long term. While the news of continued market turmoil in the financial sector is distressing, it is not altogether unexpected, and the Connecticut Treasury continues to be vigilant in protecting the State's assets during these uncertain times.

Regarding Merrill Lynch:

Our position in Merrill Lynch has actually been strengthened, due to the proposed takeover by Bank of America. As of Friday, September 12th, the book value of Connecticut's equity stake stood at $38 million, and the book value of its debt position at $10 million. Together, these investments represent 2/10ths of one percent of total assets. In addition, we hold $130 million of Merrill Lynch debt in other short-term portfolios.

Regarding Lehman Brothers:

Through the normal course of business, Connecticut's pension fund holds market positions within the financial services sector and, therefore, has exposure to firms hit hard by the subprime crisis. In particular, we hold an equity stake in Lehman Brothers with a book value of $19 million, and a debt stake with a book value of $33.3 million. The outlook for these holdings has certainly been compromised due to the bankruptcy filing; however, the ultimate value remains to be determined. Altogether, these assets represent just 2/10ths of one percent of total assets.

Needless to say, there remain broader questions about the integrity of the financial markets, as well as the appropriate level of oversight that should be in place for companies that are so vital to our economy. As the credit and liquidity crisis has evolved, questions surrounding the mark-to-market valuations of mortgage-related securities have affected virtually all

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financial institutions. A key factor in the U.S. Treasury's decision to take over Fannie Mae and Freddie Mac was the accounting practices at these institutions and the overstated capital cushion.

At the Connecticut Treasury, we have for years advocated for better corporate governance that manages risk and protects shareholder value in the long term. For example, we have fought for 1) increased transparency and disclosure; 2) independence of board members; 3) separation of chair and CEO; 4) greater shareholder access to the proxy; and 5) executive compensation linked to company performance and the ability of shareholders to vote on executive compensation packages. Some could reasonably argue that -- like Bear Stearns, Fannie Mae and Freddie Mac before them -- Merrill Lynch and Lehman Brothers are victims of their own inflated growth and the failure to effectively manage risk in favor of a "deal with it later" mentality.

Therefore, I would urge the U.S. Treasury, the Securities and Exchange Commission and Congress to take a hard look at the pattern here, and to call for better governance as a critical first step in preventing future failures whose effects reach all the way down to those citizens who least can afford to bear the brunt of the hardship."

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