THE OFFICE OF
STATE TREASURER
DENISE L. NAPPIER

NEWS

FOR IMMEDIATE RELEASE
September 15, 2008

STATEMENT BY CONNECTICUT TREASURER DENISE L. NAPPIER
REFLECTIONS CONCERNING THE DRAMATIC MARKET PLUNGE OF SEPTEMBER 15, 2008

"What the market has given, the market will take away - Leading up to the credit crisis, which unofficially began last summer, financial institutions, investors and consumers benefited from the profits generated by the unprecedented growth in residential mortgage transactions. The Connecticut Retirement Plans and Trust Funds (CRPTF) is one of these investors.

What we are witnessing now is the unwinding of these excesses and the powerful trends of deterioration in what were once believed to be some of the strongest balance sheets in the financial system. In one year, financial institutions worldwide have written off $514 billion ($261 billion of which occurred in the Americas). Financial institutions are being forced to write down over valued assets and raise cash or collateral to cover their shortfalls. The demand for capital has induced a liquidity crisis, and former sources of capital, especially foreign ones, are taking the high road. The flight to quality has returned with U.S. Treasuries being the port of refuge. Frozen out of capital markets, former pillars of financial strength and institutions once considered too large to fail are faltering: Freddie Mac, Fannie Mae, Lehman Brothers and now the outlook for AIG remains uncertain. Merrill Lynch was fortunate to find a buyer.

Our unrealized losses as of close of business on Monday, Sept 15, when the markets fell 500 points, constituted a 1.3 % loss, or $324 million of our $25 billion Connecticut Pension Fund portfolio. These losses were in both stocks and bonds. However, as we know, the market has rebounded as of close of business today (Tuesday, Sept. 16), underscoring how fluid this situation is.

What we are facing are serious concerns about systemic risk – these financial institutions are counterparties to a web of financial transactions that affect every aspect of the capital markets. It is clear that the Federal Reserve, Treasury, Congress and Wall Street firms, must all step up to the plate and preserve the integrity of the financial system. How best to do that has not yet been decided. Taxpayers certainly should not have to pay for the greed of Wall Street.

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With that said, now is not the time to panic; now is the time to take action.

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 positioned to weather this latest turbulence. Like many other institutional investors, we are experiencing the volatility of the global stock markets in light of the uncertain times for many financial firms. I remain confident we are properly positioned 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 Better Corporate Governance: 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 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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