The Office Of State Treasurer Denise L. Nappier

News

For Immediate Release
August 18, 2009

Connecticut posts FY 2009 Pension Fund Results;
Fund outperforms benchmark during year of drastic market declines

Hartford – State Treasurer Denise L. Nappier announced today that the state pension funds, the Connecticut Retirement Plans and Trust Funds ("CRPTF"), generated an average negative return of 17.37 percent.[1] The CRPTF's net market value declined from $25.9 billion on June 30, 2008 to $20.4 billion at the end of fiscal year 2009. Market value declines and non-market activities accounted for the difference from the prior year-end. Non-market related activities include management fees, net beneficiary payments, and other pension fund operating expenses, and accounted for about $1 billion in the reduction in assets.

Treasurer Nappier said that while the -17.37 percent return represents a significant fall-out, marking the most difficult year in the history of the CRPTF, the state pension funds performed respectably on a relative basis. The funds' performance compared favorably to the loss sustained in the S&P 500 of about 26.5 percent. Also, according to data compiled by independent consultant Wilshire, CRPTF outperformed 65% of other public pension plans with more than $1 billion in assets for the fiscal year ending June 30, and outperformed 72% for the five-year period ended June 30. More importantly, Connecticut's pension funds overall outperformed their customized benchmarks that best reflect the composition of the funds' combined asset allocation.

"We rowed with the oars we had, and in the final analysis, the viability of our strategic decision to assume a risk profile that is lower in down markets than other similar funds shielded the state pension funds from greater losses," Nappier said.

The CRPTF's outperformance, relative to its benchmarks and peers, is primarily attributed to its asset allocation. Specifically, the portfolio benefited from the launch of a newly-created liquidity fund, entering the fiscal year with almost 10 percent of the portfolio in cash – one of the highest allocations in the industry. The liquidity fund returned 1.54 percent and helped insulate the portfolio from the credit market disruptions that occurred during the fall of 2008. The portfolio was also at the lower range of its

[1] Unaudited and net of management fees and other operating expenses

Contact: Lisa Monroe
Communications
(860) 702-3014
lisa.monroe@ct.gov

policy weight for illiquid private equity and real estate. The CRPTF did not face any hurdles associated with contractual cash requirements like those that were faced by some pension plans that held a large amount of illiquid investments.

Finally, of note, the pension funds earned $36 million from securities lending, an increase of 26% from fiscal year 2008. Not only did Connecticut outperform relative to its peers, but regular oversight and stringent guidelines prevented it from suffering any collateral losses on its securities lending program.

The CRPTF – the bulk of which is made up of the State Employees' Retirement Fund (SERF), the Teachers' Retirement Fund (TRF), and the Municipal Employees' Retirement Fund (MERF) – provides pension fund benefits to more than 160,000 state and municipal workers and retirees. While their portfolio values dropped (-17.14 percent for TRF, -18.25 percent for SERF, and -14.90 percent for MERF), they still managed performance that met or exceeded their customized benchmarks. TRF and MERF outperformed their benchmarks by .48 percent and .36 percent respectively, and SERF was virtually flat to its benchmark.

The CRPTF's new Chief Investment Officer, Tim Corbett, acknowledged the difficulties faced by the CRPTF over the past year, as well as the sound management of the pensions plans given the disruptions in the market. Mr. Corbett stated, "The unprecedented market disruptions of last fall have highlighted the importance of investment risk management and portfolio diversification. We want to add investments that are not correlated to stocks and bonds. Also, we believe longer term inflation risks have increased and plan to add to our holdings in inflation linked securities."

As the state continues to wrestle with putting in place a budget for the current biennium, fiscal years 2010 and 2011, there will be no immediate budget impact on the state's contribution as a result of investment losses suffered by each of the three largest state sponsored plans. The actuarial valuations are completed every two years; the next is scheduled to be completed in the fall of 2010, and will determine the state's actuarially recommended contribution for the 2012 and 2013 budgets. While the CRPTF has experienced an unusually large reduction in market value over the past fiscal year, pension contributions are based on a smoothing method to limit the impact of large annual market swings.

Nappier said the outlook for the state's biennial pension contribution is not very encouraging, given the planned suspension of a portion of the state's contribution to the State Employees' Retirement Fund. Under an agreement between the Governor and the State Employees Bargaining Agent Coalition (SEBAC), $100 million in state pension fund contributions will not be paid for fiscal years 2010 and 2011, which will result in an automatic amortization of the unfunded amount with an 8.5 percent interest charge.

Nappier, principal fiduciary of the CRPTF, said that the state is facing a potential double whammy on the fiscal impact of its future pension benefit obligations. "While I fully understand and appreciate the necessity to balance the budget in part with spending cuts during these times of austerity and economic uncertainty, the steepness of this past fiscal year's investment losses combined with the planned suspension of state contributions are causes for great concern."

On the bright side, during the fourth quarter of fiscal year 2009 – the period from April to June – the portfolio rallied strongly, returning 10.79 percent, and the positive returns have continued into the current fiscal year. As of July 31, 2009, the pension fund grew by nearly $1 billion – up from $20.4 billion last month.

"This is a remarkable improvement over last fiscal year's sobering results, and it can and should be sustained so long as progress continues to be made on many fronts to fully restore the health of our economy and prevent a reoccurrence of the near collapse of our financial system. Now more than ever, we can make our voices as institutional investors heard on the urgency of addressing systemic risks, including lax regulatory oversight and poor corporate governance," said Nappier.

On August 11, 2009, Treasurer Nappier met with U.S. Treasury and White House officials on financial regulatory reform and emphasized that corporate governance is an integral part of reforming the financial regulatory system. "It is high time that investors be given the right to hold directors accountable for failed corporate governance practices," she said.

Since the beginning of the Nappier Administration more than ten years ago, she has been committed to improving and strengthening the companies in which the CRPTF invests through shareholder activism and public policy initiatives. "Without key shareholder rights, investors had to stand on the sidelines while the federal government took steps to replace boards of directors of troubled companies," she said. "Any regulatory reform needs to put investor protection front and center. We need corporate governance reforms and a strong Securities and Exchange Commission to make that commitment meaningful," Nappier said.

In addition to MERF, SERF and TRF, 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 roughly 1.4 percent of the CRPTF.

###