The Office Of
State Treasurer
Denise L. Nappier

News

For Immediate Release
August 12, 2010

Connecticut Pension Fund Investments Generate $2.6 Billion in Fiscal Year 2010
Overall Investment Return Up 12.9%, Outperforming Benchmark

State Treasurer Denise L. Nappier announced today that the state pension funds, the Connecticut Retirement Plans and Trust Funds ("CRPTF"), rebounded strongly with an average net return of 12.88% for the fiscal year ending June 30, 2010. The pension funds' net market value increased by $1.5 billion, with $2.6 billion from investment returns offset by $1.1 billion in net benefit payments, to end the fiscal year at $21.9 billion.

"The one year investment return is a welcome recovery from the difficult market environment of the last several years and our pension funds' related performance setbacks," said Nappier, principal fiduciary of the funds. "While we still have a ways to go, it takes the sting out of the dismal returns of fiscal year 2009 and demonstrates the resiliency of our pension fund investment program."

The overall success of fiscal year 2010 is reflected in the pension funds' outperformance relative to its customized benchmarks, with the State Employees' Retirement Fund ("SERF"), the Teachers' Retirement Fund ("TRF"), and the Municipal Employees' Retirement Fund ("MERF") comprising the majority of the CRPTF. The SERF, TRF, and MERF returned 12.93%, 12.87%, and 12.57%, respectively, and each outperformed its customized benchmark by .33%, .58%, and .75%, respectively.

Treasurer Nappier cautioned, however, against expecting similar returns over the next year as the economic recovery moderates. "These are difficult times, particularly given a high level of unemployment. It could be some time before we see robust economic growth and positive market returns on a sustainable basis, especially where job growth remains anemic. In the short-term, we will continue to look for tactical opportunities to further shield the pension fund from continued market volatility while strategically taking advantage of attractive investments that boost the probability of achieving returns commensurate with the funds' long-term actuarial assumption." Nappier added, "We have also scheduled a full asset allocation and liability study to commence early next calendar year, and we expect then to determine the merits of adjusting the asset allocation of each of the six State-sponsored pension plans," said Nappier.

With above-average levels of cash, the CRPTF entered the year well-positioned to take advantage of the rally in equity and credit markets. The pension funds, broadly diversified by asset class, saw particularly robust returns from emerging market equities, high yield bonds, emerging market debt, and private equity, with returns of 25.30%, 24.63%, 23.05%, and 17.32%, respectively. While most of the asset classes in the CRPTF had impressive double-digit returns, the notable exception was commercial real estate, where high levels of unemployment and a subdued recovery in consumer spending impaired valuations. Property valuations, however, stabilized toward the end of the year, and property transactions showed signs of life.

The CRPTF's Chief Investment Officer, Tim Corbett, noted that the successful performance results over the short and long term reflect the financial strength of the pension fund portfolio. "Our investment strategy has proven to protect asset values in a down market while positioning the portfolio for long-term growth," Corbett said. "While the portfolio has been the beneficiary of improved markets over the last year, the economic recovery is filled with uncertainty. Exigent circumstances call for vigilance in risk taking."

The impact of this most recent investment performance on the State's contributions to the pension funds for the 2012/2013 biennial budget will not be known until actuarial valuations are completed this fall. What is clear is that the upcoming valuations -- a comprehensive calculation that utilizes several return horizons -- will, for the first time, include a portion of the -17.3% return in fiscal year 2009.

"It is a foregone conclusion that the sobering investment performance in fiscal year 2009, coupled with the retirement incentive program and suspension of part of the State's contribution to the State Employees' Retirement Fund, will adversely affect the pension plans' valuation -- the basis for determining the State's contributions to the pension funds," said Nappier. "The good news is that fiscal year 2010's positive return will also be included in this valuation, and it will help to dampen the fiscal impact -- albeit a small consolation given the enormous budgetary challenges facing our State in the ensuing fiscal year. Unfortunately, there is no asset allocation plan that we can adopt to wipe out the unfunded liability in a timely manner without taking on undue risk."

In addition to SERF, TRF and MERF, the CRPTF is comprised of 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 additional funds make up about 1.4 percent of the CRPTF.

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