Testimony of the Office of State Treasurer Denise L. Nappier

SUBMITTED TO THE COMMITTEE ON GOVERNMENT ADMINISTRATION & ELECTIONS
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Senator Slossberg, Representative Morin, and members of the Committee on Government Administration and Elections, thank you for the opportunity to offer testimony concerning **Proposed Bill No. 5876, *An Act Concerning Investment of State Funds in Connecticut Businesses and Community Banks.***

The objectives of this bill are noteworthy: State funds – including pension assets -- can and should be deployed in such a way as to generate economic activity within Connecticut. We believe, however, that this bill is unnecessary given the Treasury's track record with investing in Connecticut. Moreover, the manner in which this bill would propose to mandate the investment of state pension assets is problematic on a number of grounds. For all of these reasons explained more fully below, the Treasury opposes this bill.

First, the Treasury's current activities in this area bear noting. Our formal Investment Policy Statement provides that it is the expressed intent of the Treasurer to seek out opportunities for investment in Connecticut-based businesses, so long as such investments are fully consistent with investment strategy and fiduciary standards. Consistent with that intent, the Connecticut Retirement Plans and Trust Funds (CRPTF) have invested $230 million of its $24.5 billion in assets in the securities of Connecticut-based banks and businesses. Another $160 million is invested with firms domiciled outside of Connecticut but with significant operations and employment in the state. And lastly, $2.9 billion of the CRPTF's assets are managed by investment firms either domiciled or with significant operations in Connecticut. Taken together, approximately 14 percent of CRPTF assets are invested in or managed by banks and businesses that are either based in Connecticut or have a significant presence in Connecticut.

These investments are made within the context of an asset allocation strategy that is specifically crafted for each of the funds under the CRPTF umbrella. The strategy includes target ranges of investments for different asset classes, such as domestic and international equities, four classes of fixed-income investments, and real estate. This strategy is established by the Treasurer and approved by the State's independent Investment Advisory Council, and takes into account the following criteria: (1) capital market theory, including geographic diversification; (2) financial and fiduciary requirements; and (3) liquidity needs. The financial objectives of the CRPTF are long-term in nature and have been established based on a comprehensive review of the capital markets and the underlying plans' and trusts' current and projected financial requirements.

This methodical approach to investing pension assets is directly responsible for the recent rebound in the value of the CRPTF. The State's pension funds have posted strong returns for the 2010 calendar year, outperforming its benchmarks following the worst recession in generations. The CRPTF returned 12.55 percent for the 2010 calendar year, which represents $2.8 billion in investment performance. So far this 2011 fiscal year – July 1, 2010 to December 31, 2010 – the pension funds are off to an even stronger start with an investment return of 14.91 percent. This investment performance translates into $3.2 billion of growth in pension assets. The 2010 calendar year performance represents the second straight calendar year of double digit returns. For calendar year 2009, the pension funds earned 19.8 percent.

This strong recovery is welcome news, particularly given that the funded ratios of the two largest pension plans sponsored by the State -- the State Employees' Retirement Fund and the Teachers' Retirement Fund – stand at 44.4 percent and 61.4 percent, respectively.

To direct or redirect contributions to the CRPTF in a manner other than what is planned for in the asset allocation strategy would limit the range of investment options, thereby compromising investment performance by reducing the returns otherwise available for a similar level of risk in the capital markets.

Beyond the investment of pension assets, the State's Short Term Investment Fund (STIF) makes significant use of Connecticut brokers. For Fiscal Year 2010, Connecticut brokers conducted $24 billion in trades – which represented 30 percent of all STIF trades. And with the Connecticut Community Banks and Credit Unions Initiative, we have invested $344 million with such institutions since the program was established in 2006.

With all of that said, the proposed bill would require the State Treasurer to invest any new pension contributions in businesses and community banks with a branch located in the state. To put this into perspective, total contributions from the State and employees to the Connecticut Retirement Plans and Trust Funds (CRPTF) for Fiscal Year 2010 were $1.65 billion, and are projected to total $1.79 billion for Fiscal Year 2011. The proposed bill would further require a minimum of five per cent of pension assets – or roughly $1.23 billion – to be invested in such entities.

For all of the reasons set forth above, the Treasury respectfully opposes Proposed Bill No. 5876.