

Office of the State Treasurer

At a Glance

ERICK RUSSELL, State Treasurer

Sarah K. Sanders, Deputy State Treasurer

Established – 1638

Statutory authority – State Constitution

Central office – 165 Capitol Avenue – 2nd Floor, Hartford, CT 06106

Number of full-time employees at June 30, 2023 – 120

Assets managed as of June 30, 2023

Pension Plans and Trust Funds: \$ 49,331,191,521

Short-Term Investment Fund: \$ 19,049,427,627

Fiduciary assets as of June 30, 2023

Connecticut Higher Education Trust: \$ 5,202,704,996

ABLE CT: \$ 3,268,890

Recurring operating expenses

General Fund: \$ 3,600,033

Bond Funds: \$ 144,693,098

Pension Plans and Trust Funds: \$ 328,410,960

Second Injury Fund: \$ 7,627,266

Unclaimed Property Fund: \$ 6,285,243

Short-Term Investment Fund: \$ 1,351,016

Total abandoned property receipts: \$ 187,758,785

Amount returned to owners: \$ 71,600,868

Organizational structure – Executive Office; Cash Management Division; Debt Management Division; Management Services Division; Pension Funds Management Division; Second Injury Fund Division; and Unclaimed Property Division.

Mission

To serve as the premier Treasurer’s Office in the nation through effective financial management of public resources, high standards of professionalism and integrity, and expansion of opportunity for the residents and businesses of Connecticut.

Statutory Authority

The Office of the Treasurer was established following the adoption of the Fundamental Orders of Connecticut in 1638. As described in Article Four, Section 22 of the Connecticut State Constitution, the Treasurer shall receive all funds belonging to the State and disburse the same only as may be directed by law. Chapter 32 of the Connecticut General Statutes requires the

Treasurer to manage the State's cash transactions, issue and manage the State's debt, act as principal fiduciary for six State pension and nine State trust funds, administer the Second Injury Fund, and safeguard assets escheated to the State and return such assets to the rightful owners.

Connecticut General Statutes outline that the State Treasurer serves as a member, ex-officio member, or can designate a representative, on several State boards and commissions. The Treasurer serves on the following boards, commissions and legislatively-mandated committees: Banking Commission, State Bond Commission, Connecticut Airport Authority, Connecticut Data Analysis Technology Advisory Board, Connecticut Green Bank, Connecticut Health and Educational Facilities Authority, Connecticut Higher Education Supplemental Loan Authority, Connecticut Higher Education Trust Advisory Committee, Connecticut Housing Finance Authority, Connecticut Innovations, Community Investment Fund 2030 Board, Connecticut Lottery Corporation, Connecticut Port Authority, Connecticut Retirement Security Authority, Family and Medical Leave Insurance Authority, Finance Advisory Committee, Investment Advisory Council, Municipal Accountability Review Board, Nitrogen Credit Advisory Board, Social Equity Council, Standardization Committee, State Employees' Retirement Commission, Connecticut Student Loan Foundation and Teachers' Retirement Board, Governor's Council on Women and Girls.

Treasurer Russell - Brief Biography

Treasurer Erick Russell was sworn in as Connecticut's 84th State Treasurer on January 4, 2023. He is currently serving his first term. Born and raised in New Haven, he was the first in his family to graduate college, earning a bachelor's degree from the University of New Haven and a law degree from the University of Connecticut School of Law. After law school, Russell joined the prestigious Connecticut law firm of Pullman & Comley where he was a partner in the firm's Public and Private Finance Group. Russell represented towns, cities, and the state in financing infrastructure projects, managing debt and restructuring pension obligations. As Treasurer, Russell administers Connecticut's pension funds holding more than \$49 billion in assets, oversees the state's debt and cash management, collects and returns unclaimed property, and manages the Connecticut Higher Education Trust (CHET), a 529 plan that helps students and families save for higher education. In addition to his professional responsibilities, Russell has embraced the role of mentor, particularly for young Black and LGBTQ+ people. In 2022, he became the first Black out LGBTQ+ person in American history to be elected to statewide office. Russell continues to live in New Haven with his husband, Christopher Lyddy.

Public Service

The Treasurer is the chief elected financial officer of the State. The Office of the Treasurer includes an Executive Office and six divisions, each with specific responsibilities: Cash Management, Debt Management, Management Services, Pension Funds Management, the Second Injury Fund, and Unclaimed Property. The Treasurer is responsible for the safe custody of the property and money belonging to the State by receiving all money, making disbursements as directed by statute, and managing, borrowing, and investing funds. The Treasurer is the principal fiduciary of each of the Connecticut Retirement Plans and Trust Funds (CRPTF) and, as such, is responsible for prudently investing the State's pension and trust fund assets. The

Cash Management Division also manages the Short-Term Investment Fund, which serves as an investment vehicle for the operating cash of the State Treasury, state agencies and authorities, municipalities, and other political subdivisions of the State. As the public finance arm of state government, the Treasury is responsible for issuing and managing the State's debt in a vigilant and cost-effective manner.

The Executive Office is responsible for overall policy, planning, and general administration to enhance the financial integrity and soundness of Treasury operations within each division, providing direction and leadership in carrying out Treasury functions and fostering the economic well-being of the State and its residents and businesses within the confines of fiduciary standards. The Executive Office also administers the Treasury's corporate governance program, which was developed in accordance with its fiduciary duty to protect and grow the value of the State's pension and trust fund investments; promotes, in accordance with state law, environmental, social, and governance best practices among the companies in which it invests and with its financial service providers; and serves as a catalyst and advocate for the financial fitness of residents across the State. Other specific activities include legislative affairs, public information and community outreach, legal services, compliance, and financial reporting. The Treasurer is Trustee of the Connecticut Higher Education Trust (CHET), the state's 529 college savings program and the Achieving a Better Life Experience (ABLE) savings program. The Executive Office provides overall supervision of these savings programs as managed by financial service providers.

Notable Achievements

Since entering office in January of 2023, Treasurer Russell has focused on supporting the strong financial position of the state, including expanding economic opportunity for residents, and maximizing the performance of investments overseen by the agency.

Budgetary reforms in recent years have stabilized Connecticut's finances and resulted in record surpluses, the Budget Reserve Fund ("Rainy Day Fund") being filled to capacity, and billions in additional contributions to the state's pension funds. The Office of the Treasurer supported the extension of those reforms, known as the fiscal guardrails, which were approved by the legislature in February. In FY2022, the BRF grew to an historic high and exceeded the statutory limit of 15%. In September and December of 2022, following the release of the State's financial statements for FY2022, the Treasurer directed contributions of the excess combined BRF amount of \$4.1 billion, allocating \$903.6 million to Teachers' Retirement Fund and \$3.203 billion to the State Employees' Retirement Fund. For the third year in a row and only the third time in history, the growth of the State's BRF allowed the State to responsibly pay down long-term unfunded pension liabilities.

In May of 2023, Treasurer Russell and Governor Ned Lamont co-hosted the Inaugural Connecticut Investor Conference to highlight that progress and the state's ongoing and upcoming opportunities for bond investment. Over 300 institutional investors and other members of the financial community from across the country gathered in Hartford to hear from representatives of state government, and Connecticut's other bond-issuing entities, along with experts and lawmakers. Soon after, a successful \$715 million General Obligation (GO) bond sale demonstrated the state's strong financial standing with investors. In advance of the sale, Kroll

Bond Rating Agency upgraded the credit rating for the state’s GO bonds from “AA” to “AA+” with an outlook of “Stable.”

Refinancing of existing bonds during the same sale resulted in \$25 million savings for taxpayers. In April, a refunding sale of City of Hartford GO Bonds, in collaboration with the city and the Office of Policy and Management, produced State savings of \$13.9 million.

Strategic technical and cultural changes within the agency, and to the Investment Advisory Council (IAC), were put in place to further bolster state finances by maximizing investment performance. Updates to the Strategic Asset Allocation and Investment Policy Statement in 2022, holding managers accountable to high standards on fees and performance, and improved risk mitigation strategies have generated positive results.

Treasurer Russell successfully pushed for legislation that will build on the talent within the investment team by focusing on staff continuity and professional development. The new law also broadens the pool of people that are eligible to serve on the IAC, which shares responsibility for Connecticut’s investment strategy and performance. These changes will help position Connecticut as a national leader in public sector investments and bolster its reputation as it competes for high-level investment talent.

Also, within the agency, technological and process improvements have streamlined the process of returning unclaimed property to its rightful owners. For the first time in state history, many claims can now be processed automatically, eliminating the need for some physical documentation, freeing up staff resources, and nearly tripling the number of claims paid.

Treasurer Russell, in collaboration with Governor Lamont and legislative leaders, identified and secured funding for CT Baby Bonds, a first-in-the-nation initiative to combat generational poverty and expand economic opportunity. Originally passed in 2021, the program invests \$3,200 on behalf of each Connecticut child whose birth is covered by HUSKY, the state’s Medicaid program. When participants are between the ages of 18-30, they can claim the funds to be used for specific purposes intended to help build individual wealth, including buying a home in Connecticut, starting or investing in a Connecticut business, paying for education or job training, or saving for retirement. The program officially began on July 1, 2023.

The funding solution, which was passed into law as part of the biennial state budget, repurposed existing cash reserves and replaced it with a relatively inexpensive insurance policy. By funding the program upfront, the overall cost of the program was reduced by over \$350 million without requiring any state borrowing or ongoing appropriations.

The Office of the Treasurer is committed to supporting a strong and inclusive economic future for Connecticut.

Highlights Fiscal Year 2023

During FY2023, achievements at the Office of the Treasurer that will benefit state residents and businesses included:

Short-Term Investment Fund Outperforms Benchmark—The Short-Term Investment Fund (STIF) earned 3.93 percent in FY2023, while its benchmark returned 3.75 percent. Consequently, STIF investors earned an additional \$29 million in interest income. The STIF's superior performance has earned State and local governments and their taxpayers an additional \$112 million over the last ten years.

Connecticut's Pension Funds—The CRPTF posted an unaudited net asset value of \$49.3 billion as of June 30, 2023, an increase of approximately \$7.5 billion during the fiscal year. Connecticut's three largest pension plans; the Teachers' Retirement System, State Employees' Retirement System, and Municipal Employees' Retirement System had assets of \$23.0 billion, \$20.1 billion, and \$3.2 billion, respectively.

Credit Rating Upgrades—During the year, the State earned two major credit rating upgrades on its bonds. Standard & Poor's raised its credit rating from "A+" to "AA-" in November 2022 and in May 2023, Kroll Bond Rating also raised its credit rating from "AA" to "AA+."

Unclaimed Property Division Returned \$72 Million to Rightful Owners, Added \$96 Million to the General Fund—Unclaimed property receipts totaled \$188 million during FY2023. Of the total, the Office deposited \$96 million into the State's General Fund and transferred \$13.5 million to the Citizens' Election Fund. The Office tripled its number of claims paid, returning \$72 million in unclaimed assets to 72,981 rightful owners and embarked on bringing new statutes to fruition.

Second Injury Fund Assessment Rates Remain Unchanged—The Second Injury Fund continues to maintain the assessment rates for Connecticut businesses at the lowest levels in its history. As a result, Connecticut businesses have realized an estimated \$101 million in savings during FY2023 and \$99 million in projected savings for FY2024.

Unfunded Liabilities for Injured Workers Continue to Decline—Unfunded liabilities in the Second Injury Fund for injured workers during FY2023 decreased 6.1 percent from \$197 million to \$185 million. The Second Injury Fund's open claim inventory increased from 2,544 to 2,788 as of June 30, 2023.

Assets Recovered from Claims and Litigation— During FY2023, the Treasury recovered \$1.1 million in class action lawsuits. The Office has regained \$67 million since 2000 by closely monitoring and participating in class action settlements.

Connecticut Higher Education Trust ("CHET") 529 Program Experiences Steady Growth — The CHET program continued its steady growth, surpassing \$5.2 billion in assets under management and more than 208,150 accounts. Since CHET's transition to Fidelity in February 2021, more than \$506.3 million in qualified withdrawals in CHET Direct have been redeemed to cover higher education costs for students attending nearly every public and private college in Connecticut and several out-of-state schools.

CHET College Scholarships Awarded—CHET also continued the annual Dream Big! essay and drawing competition for in-state K-12 students, running for thirteen consecutive years. The

Dream Big! competition received a total of 28,739 entries and has awarded a total of \$1,010,724 since inception. For 2022, Fidelity merged the CHET Advance Scholarship and CHET Dream Big! Competition to one larger program. The most recent 2022 campaign of the CHET Dream Big! Competition selected 258 winners from 3,037 entries, with a total of \$307,500 awarded to students and an additional \$150,000 in technology packages awarded to schools.

Able CT 529 Program Experiences Steady Growth—The ABLE program continued its steady growth, surpassing \$3.2 million in assets under management and 446 accounts.

Financial Reports Receive Excellence Awards—The Government Finance Officers Association (“GFOA”) of the United States and Canada awarded the Treasury *Certificates of Achievement for Excellence in Financial Reporting* for the annual comprehensive financial reports for the fiscal year that ended June 30, 2022. The Treasury received the GFOA’s annual award each year for its financial reports for STIF. The FY2022 certificate marks the 23rd consecutive year of this distinction.

Cash Management Division

Short-Term Investment Fund—For FY2023, the STIF achieved an annual return of 3.93 percent, exceeding its primary benchmark by 18 basis points (0.18 percent), earning an additional \$29.0 million in interest income for Connecticut’s agencies, authorities, municipalities and their taxpayers during the fiscal year.

At the end of FY2023, the STIF had \$19.0 billion in assets under management. Municipalities had 586 active accounts, an increase of 32 accounts from the prior fiscal year. S&P Global Ratings reaffirmed the STIF’s AAAM rating, the highest rating available.

Community Bank and Credit Union Initiative—Pursuant to Conn. General Statute Section 3-24k, the Treasury continued the Community Bank and Credit Union Initiative to support Connecticut-based banks and credit unions—with assets not exceeding \$2 billion—through investments in their certificates of deposit. During FY2023, a monthly competitive bidding process was held, through which \$29 million was invested at an average interest rate of 4.52 percent. Since inception, 13 banks and one credit union have signed up for the initiative with \$690.6 million invested at an average yield of 2.15 percent through June 30, 2023.

Cash Management Operations—The Division works with State agencies to improve the efficiency of the State’s cash management program by accelerating receipts via electronic payments and the internet, streamlining the flow of funds between concentration accounts and individual disbursement accounts to reduce manual processes, increase invested funds, and speed the flow of banking information to State agencies.

Debt Management Division

During FY2023, the Division administered the State's \$26.0 billion debt portfolio and managed the issuance of \$1.9 billion of new bonds to fund the State's capital programs, including local school construction, economic development initiatives, municipal aid, transportation infrastructure, and continued improvements at the University of Connecticut. These projects help to bolster local economies throughout the State.

The Division also issued a total of \$528.2 million of refunding bonds for the General Obligation program that will provide aggregate debt service savings of \$45.0 million over the remaining life of the bonds. The Division also issued \$313.5 million of refunding bonds for the Special Tax Obligation (Transportation) program that will provide aggregate debt service savings of \$24.0 million over the remaining life of the bonds. In addition, the Division assisted with the issuance of \$124.9 million refunding bonds for the City of Hartford, which will provide aggregate debt service savings to the State of \$13.9 million over the remaining life of the bonds refunded.

Bringing to fruition a plan that was stalled during the pandemic, the Division developed and launched the State's Inaugural Connecticut Investor Conference in May 2023. This successful daylong event hosted by Governor Lamont and Treasurer Russell included presentations from many agency and industry leaders and brought together legislators, investors, rating agencies and other decision-makers in the areas of infrastructure investment, municipal bonding and public finance.

During the year, Connecticut continued to build its fiscal health including large budget surpluses, additional deposits to the Budget Reserve Fund, and significant additional contributions to the State's two major pension systems. In recognition of the State's continued financial improvement, Standard & Poor's raised its credit rating on the State's credit rating from "A+" to "AA-" in November 2022. The subsequent General Obligation bond sale the same month attracted over \$2 billion of orders from retail investors, the highest total retail order amount on record, contributing to a lower borrowing cost for the bonds. In May 2023, Kroll Bond Ratings also raised the State's credit rating from "AA" to "AA+" citing significant and continuous improvement in the State's financial position over the past six fiscal years, and a demonstrated commitment to budgetary discipline through the recent bipartisan extension of statutory fiscal guardrails.

Continuing its market leadership, Connecticut sold its fourth issue of "Social Bonds" in December 2022. The four Social Bond issues were self-labeled and were sold consistent with the International Capital Markets Association's Social Bond Principles. The proceeds will be used to finance the State's school construction grant program, a socially progressive program that provides significantly higher reimbursement rates to communities most in need.

The Division was active in enhancing staffing and systems during the year. In response to the retirements of several members within the Accounting Group, three experienced professionals were hired to fill these important functions and one professional was promoted. Also, the Division finalized approach plans for two firms selected to provide new debt management computer systems after receiving approval from the State's IT Capital Investment

Committee. In addition, the Investment Policies for both the Special Tax Obligation Bond program and the State Revolving Fund Bond program were updated.

Pension Funds Management Division

The two largest pension plans in the CRPTF, the Teachers' Retirement Fund ("TERF") and the State Employees' Retirement Fund ("SERF"), generated net investment results of 8.35 and 9.02 percent respectively for FY2023. For the longer-term period of 20-years, ending June 30, 2023, both the TERF and the SERF plans generated net investment results of 6.94 percent and 6.96 percent, respectively, slightly below the plans' composite benchmark return.

The Investment Advisory Council (IAC) was very active during FY2023, having reviewed 46 investments across the CRPTF. During FY2023, 27 managers were added to the private market asset classes, 21 managers were added to the public market asset classes.

The Connecticut Inclusive Investment Initiative (Ci³) (formerly The Connecticut Horizon Program) is comprised of Ci³ Manager-of-Managers partners who oversee sub-managers approximating \$2 billion at June 30, 2023. The invested capital with the emerging and diverse investment managers totaled \$1.4 billion across the various public asset classes, and nearly \$700 million for the private asset classes.

Corporate Governance—The Treasury's corporate governance activities are guided by the core principle that the exercise of shareholder rights — either through the voting of proxies or the filing of shareholder resolutions — is central to the fiduciary obligation to enhance shareholder value. The CRPTF's proxy voting guidelines, as set forth in its Investment Policy Statement, detail the standards governing the manner in which proxies are to be voted on an array of issues — including election of directors, executive compensation, governance best practices, labor standards and other environmental, social, and governance issues. These issues have financial implications for the long-term shareholder value of the CRPTF's investments, which is why the voting of proxies is considered a plan asset.

During FY2023, the Treasury was involved in the following shareholder activities:

The CRPTF filed three shareholder resolutions for the 2023 proxy season: executive pay, climate lobbying, and methane emissions. Agreements were reached at all three companies where resolutions were filed, leading to withdrawal of these resolutions filed with Teva Pharmaceutical Industries, Devon Energy, and Marathon Oil Corporation.

The Connecticut Treasury leads the *Northeast Investors' Diversity Initiative* (NIDI), a regional partnership dedicated to increasing corporate board diversity inclusive of gender, race and ethnicity at companies headquartered in the Northeast. Launched in 2019, the coalition members have engaged with over 50 companies – 21 of which have made changes to their board of directors by adding women and people of color. In addition, ten companies have made changes to their corporate governance charters and/or nominating committee processes to reflect their company's commitment to diverse pools of candidates for board service, while one company adopted Rooney Rule language in their proxy voting material.

Investment Restrictions— The Treasurer establishes policies restricting investment based on considerations of foreign policy, environmental, social and other factors, and their implications for the CRPTF. Since December 3, 2019, the Office of the Treasurer has restricted investments in certain civilian firearms manufacturers and, since March 1, 2022, the office has restricted investments in Russian-domiciled companies and Russian sovereign debt.

In addition, the Treasurer adheres to the requirements of two laws specific to companies doing business in Sudan and Iran. Connecticut’s Iran law, set forth in Connecticut General Statutes Section 3-13g, authorizes the Treasurer to restrict investment in companies doing business in Iran. As of June 30, 2023, the Treasury prohibited direct investment in fifty-five companies related to Connecticut’s Sudan law, adopted in 2006 and set forth in Connecticut General Statutes Section 3-21e, which authorizes the Treasurer to restrict investment in companies doing business in Sudan. As of June 30, 2023, the Treasury prohibited direct investment in 44 companies. The Treasury publishes the investment restrictions annually on the Treasury website.

Second Injury Fund Division

The Second Injury Fund provided \$19.6 million in indemnity, medical, and settlement payments to injured workers during FY2023. The number of injured workers receiving bi-weekly benefits (indemnity payments only) decreased from 183 to 173 during the fiscal year.

The Second Injury Fund continues to maintain the assessment rates for insured employers and self-insured employers at the lowest levels in the history of the Second Injury Fund. The rate for insured employers is at 2.25 percent and the rate for self-insured employers at 2.75 percent. The estimated savings to Connecticut businesses for FY2023 is \$101 million and the projection for FY2024 is an estimated \$99 million in savings.

As of June 30, 2023, the Second Injury Fund’s open claim inventory was 2,788. The unfunded liabilities of the Second Injury Fund for all open claims as of June 30, 2023, have decreased by 6.1 percent for the fiscal year from \$197 million to \$185 million.

Unclaimed Property Division

The Division returned \$72 million in unclaimed property to 72,981 rightful owners during FY2023. In addition, the division received \$188 million in unclaimed property—\$144 million in receipts from holders, \$5 million from examination of holder records, and \$39 million from securities sold in accordance with Connecticut General Statutes Section 3-68a (d). Connecticut General Statutes Section 3-69a (2) required the Division to deposit \$13.5 million into the Citizens’ Election Fund and the balance into the General Fund.

During FY2023, 1.9 million searches for abandoned property were performed through the unclaimed property website, 215,697 claims were initiated, and the division responded to 39,641 inquires via the telephone. As of June 30, 2023, the Unclaimed Property website contained \$1.42 billion in escheated property for 9.9 million rightful owners and reunited over \$1 billion in property with its rightful owners.

Connecticut Higher Education Trust (CHET) 529 Program

The Connecticut Higher Education Trust (CHET) transitioned to a new program manager, Fidelity Investments, for both the CHET Direct-sold and CHET Advisor-sold programs in the first quarter of calendar year 2021. Fidelity continues to improve the investment lineup, product choices, and user experience for CHET participants. CHET surpassed \$5.2 billion in assets under management and more than 208,150 accounts in two trust plans: CHET Direct (marketed directly to individuals) and CHET Advisor (available through financial advisors).

The CHET Direct plan managed by Fidelity increased the number of accounts over the previous year from 161,080 on June 30, 2022, to 174,632, and total assets reached \$4.3 billion on June 30, 2023. The CHET Advisor plan, also managed by Fidelity, increased the number of accounts from 32,812 to 33,518 with total assets of \$873.5 million in the previous year.

Achieving A Better Life Experience Savings Program (“ABLE CT”)

The Office of the Treasurer launched Connecticut's Achieving a Better Life Experience Savings Program ("ABLE CT") on October 15, 2020. ABLE CT is implemented through the National ABLE Alliance, a consortium of 18 states working together to offer individual ABLE programs to persons with disabilities in their respective states. The ABLE CT plan manager is Ascensus College Savings Recordkeeping Services, LLC. ABLE CT allows individuals living with a disability or their legal guardian the opportunity to save for qualified disability expenses using a federally tax-advantaged savings plan.

As of June 30, 2023, the ABLE CT program increased the number of accounts over the previous year from 260 to 446 accounts with total assets of \$3.3 million in the previous year.

Information Reported as Required by State Statute

Affirmative Action—The Office of the Treasurer’s bi-annual affirmative action program, submitted in compliance with Connecticut General Statutes Section 46a-78 to the State Commission on Human Rights and Opportunities, was approved by the Commission. The Treasury pledges to continue making every good-faith effort to achieve all objectives, goals, and timetables in its Affirmative Action Plan. Contracts, leases, and purchase orders of the Treasury contain clauses requiring non-discrimination, and vendors are required to certify the same. The Office of the Treasurer, under the leadership of Treasurer Russell, also met its annual Set-Aside Program goals.