

CONNECTICUT HIGHER EDUCATION TRUST

DIRECT PLAN

Financial Statements

Including

Supplemental Information

June 30, 2016



CONNECTICUT HIGHER EDUCATION TRUST
DIRECT PLAN
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June 30, 2016

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Independent Auditor's Report

To the Trustee of the Connecticut Higher Education Trust Program-Direct Plan:

We have audited the accompanying basic financial statements of the Connecticut Higher Education Trust - Direct Plan (the "Direct Plan"), which comprise the Statement of Fiduciary Net Position as of June 30, 2016 and the related Statement of Changes in Fiduciary Net Position for the year then ended, and the related notes to the financial statements, which collectively comprise the Direct Plan's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Direct Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Direct Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Connecticut Higher Education Trust - Direct Plan, at June 30, 2016, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 be presented to supplement the basic financial statements.

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Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Direct Plan's basic financial statements. The accompanying supplemental information of the Statements of Fiduciary Net Position on pages 15 through 19, Statements of Changes in Fiduciary Net Position on pages 20 through 25 and Financial Highlights on pages 26 through 31 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplemental information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2016 on our consideration of the Direct Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Direct Plan's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

August 17, 2016

**CONNECTICUT HIGHER EDUCATION TRUST
DIRECT PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)**

As Plan manager of the Connecticut Higher Education Trust – Direct Plan (the “Direct Plan”), TIAA-CREF Tuition Financing, Inc. (“TFI”) offers readers of the Direct Plan’s financial statements this discussion and analysis of the financial performance for the year ended June 30, 2016. Readers should consider the information presented in this section in conjunction with the Direct Plan’s financial statements and notes to financial statements. The Direct Plan is comprised of 14 investment options (the "Options") in which account owners ("Account Owners") may invest.

Financial Highlights

During the year ended June 30, 2016, the Options within the Direct Plan posted returns as follows:

<u>Conservative Managed Allocation Option</u>		<u>Aggressive Managed Allocation Option</u>	
Ages 0-3	0.00%	Ages 0-3	(1.63)%
Ages 4-7	0.30	Ages 4-7	(0.72)
Ages 8-11	0.79	Ages 8-11	(0.28)
Ages 12-14	0.92	Ages 12-14	0.07
Ages 15-17	1.14	Ages 15-17	0.28
Ages 18 & Over	1.48	Ages 18 & Over	0.68
<u>Moderate Managed Allocation Option</u>		<u>Multi-Fund Investment Options</u>	
Ages 0-3	(0.48)%	Global Equity Index Option	(4.86)%
Ages 4-7	(0.22)	Global Tactical Asset Allocation Option	(4.42)
Ages 8-11	0.16	International Equity Index Option	(9.70)
Ages 12-14	0.64	Active Global Equity Option	(3.46)
Ages 15-17	0.79	U.S. Equity Index Option	2.00
Ages 18 & Over	0.96	High Equity Balanced Option	(1.98)
		Active Fixed-Income Option	1.17
		Social Choice Option	2.01
		Index Fixed-Income Option	5.83
		Money Market Option	0.10
		Principal Plus Interest Option	1.57

The Direct Plan received \$87.1 million in net contributions from Account Owners during the year ended June 30, 2016.

The Direct Plan earned \$49.6 million from investment income and paid out \$3.4 million for operating expenses during the year ended June 30, 2016.

Overview of the Financial Statements

The Direct Plan’s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

This report consists of two parts: Management’s Discussion and Analysis (this section) and the basic financial statements. The basic financial statements are composed of a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position, and Notes to Financial Statements that explain some of the information in the financial statements and provide more detailed information.

The Statement of Fiduciary Net Position presents information on the Direct Plan's assets and liabilities, with the difference between the two reported as net position as of June 30, 2016. This statement, along with all of the Direct Plan's financial statements, is prepared using the accrual basis of accounting. Contributions are recognized when enrollment in the Direct Plan is finalized; subsequent subscriptions and redemptions are recognized on trade date; expenses and liabilities are recognized when services are provided, regardless of when cash is disbursed.

The Statement of Changes in Fiduciary Net Position presents information showing how the Direct Plan's assets changed during the most recent fiscal period. Changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal years.

The Notes to Financial Statements provides additional information that is essential to a full understanding of the data provided in the basic financial statements.

This report presents the operating results and financial status of the Direct Plan, which the State of Connecticut reports as a fiduciary fund. Fiduciary fund reporting is used to account for resources held for the benefit of parties outside the governmental entity.

Financial Analysis

Net position - The following are condensed Statements of Fiduciary Net Position as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Investments	\$ 2,501,382,675	\$ 2,416,132,720
Cash	734	1,638
Receivables	3,725,916	2,614,117
Total Assets	<u>2,505,109,325</u>	<u>2,418,748,475</u>
Payables	5,390,963	3,196,774
Total Liabilities	<u>5,390,963</u>	<u>3,196,774</u>
Total Net Position	<u>\$ 2,499,718,362</u>	<u>\$ 2,415,551,701</u>

Net position represents total contributions from Account Owners, plus the net increases (decreases) from operations, less withdrawals and expenses.

Investments are approximately 100% of total net position, and consist of the Options, each of which invests in varying percentages in multiple TIAA-CREF Funds and/or other third-party mutual funds, or a funding agreement ("Funding Agreement") issued by TIAA-CREF Life Insurance Company to the Connecticut Higher Education Trust. Receivables consist of securities sold, contributions, and accrued income. Liabilities consist mainly of payables for securities purchased, withdrawals, and accrued expenses.

Changes in net position - The following are condensed Statements of Changes in Fiduciary Net Position for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Additions:		
Subscriptions	\$ 853,035,412	\$ 850,917,928
Investment income	49,577,969	51,671,896
Total Additions	<u>902,613,381</u>	<u>902,589,824</u>
Deductions:		
Redemptions	(765,961,569)	(756,035,841)
Direct Plan manager fee, net	(3,146,949)	(3,107,581)
Administrative fee, net	(211,892)	(207,175)
Net decrease in fair value of investments	(49,126,310)	(19,800,342)
Total Deductions	<u>(818,446,720)</u>	<u>(779,150,939)</u>
Changes in Net Position	<u>84,166,661</u>	<u>123,438,885</u>
Net position - beginning of year	<u>2,415,551,701</u>	<u>2,292,112,816</u>
Net position - end of year	<u>\$ 2,499,718,362</u>	<u>\$ 2,415,551,701</u>

CONNECTICUT HIGHER EDUCATION TRUST – DIRECT PLAN
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016

ASSETS

Cash	\$	734
Investments, at value (Cost: \$2,219,975,786)		2,501,382,675
Dividends and interest receivable		1,880,684
Receivable from securities transactions		386,540
Receivable from Direct Plan units sold		1,458,692
TOTAL ASSETS		<u>2,505,109,325</u>

LIABILITIES

Overdraft payable		165
Accrued Direct Plan manager fee		1,558,568
Accrued administrative fee		106,350
Payable for securities transactions		2,708,492
Payable for Direct Plan units redeemed		1,017,388
TOTAL LIABILITIES		<u>5,390,963</u>

NET POSITION

Held in trust for Account Owners in the Direct Plan	\$	<u>2,499,718,362</u>
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See notes to financial statements

**CONNECTICUT HIGHER EDUCATION TRUST – DIRECT PLAN
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016**

ADDITIONS

Subscriptions	\$	853,035,412
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Investment income:

Interest		3,740,944
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Dividends		45,837,025
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Total investment income		<u>49,577,969</u>
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Total additions		<u>902,613,381</u>
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DEDUCTIONS

Redemptions		(765,961,569)
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Direct Plan manager fee, net		(3,146,949)
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Administrative fee, net		(211,892)
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Net increase (decrease) in fair value of investments		<u>(49,126,310)</u>
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Total deductions		<u>(818,446,720)</u>
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Changes in net position		84,166,661
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Net position – beginning of year		<u>2,415,551,701</u>
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Net position – end of year	\$	<u>2,499,718,362</u>
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See notes to financial statements

CONNECTICUT HIGHER EDUCATION TRUST – DIRECT PLAN NOTES TO FINANCIAL STATEMENTS

Note 1 – Organization and Significant Accounting Policies

The Connecticut Higher Education Trust - Direct Plan (the "Direct Plan") is designed to help people save for the costs of higher education. The Direct Plan is administered by the Treasurer of the State of Connecticut, as the trustee (the "Trustee") of the Connecticut Higher Education Trust (the "Trust"). The Trustee has the authority to establish, develop, implement and maintain the Direct Plan and to make and enter into contracts to service the Direct Plan. TIAA-CREF Tuition Financing, Inc. ("TFI"), a wholly owned, direct subsidiary of Teachers Insurance and Annuity Association of America ("TIAA"), and the Trustee have entered into a management agreement ("Management Agreement") under which TFI serves as the Direct Plan manager. The Direct Plan is intended to meet the requirements of a qualified tuition program under Section 529 of the Internal Revenue Code ("Code"). Investment options (the "Options" or individually "Option"), allocations and fees, as approved by the Trustee, are described in the current Disclosure Booklet for the Direct Plan.

The assets in the Principal Plus Interest Option are allocated to a funding agreement ("Funding Agreement") issued by TIAA-CREF Life Insurance Company ("TIAA Life"), an affiliate of TFI, to the Trust, as policyholder. The Funding Agreement provides for a return of principal plus a guaranteed rate of interest and allows for the possibility that additional interest may be credited as declared periodically by TIAA Life.

Teachers Advisors, Inc. ("Advisors"), an affiliate of TFI, is registered with the Securities and Exchange Commission as an investment adviser and provides investment advisory services to the TIAA-CREF Funds (the "Funds").

The accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB") which may require the use of estimates made by management and the evaluation of subsequent events. Actual results may differ from those estimates. The following is a summary of the significant accounting policies consistently followed by the Direct Plan.

Investment income: Securities transactions are accounted for as of the trade date for financial reporting purposes. Interest income is recorded as earned. Dividend income and capital gain distributions from the underlying mutual funds are recorded on the ex-dividend date. Income distributions from underlying mutual funds are included in total investment income and gain distributions are included in net increase in fair value of investments. Realized gains and losses are based upon the specific identification method.

Income tax: No provision for federal income tax has been made. The Direct Plan is designed to constitute a qualified tuition program under Section 529 of the Code and does not expect to have any unrelated business income subject to tax.

Units: The beneficial interests for each account owner ("Account Owner") in the Options are represented by Direct Plan units. Subscriptions and redemptions are recorded upon receipt of Account Owner's instructions in good order, based on the next determined net position value per unit ("Unit Value"). Unit Values for each Option are determined at the close of business of the New York Stock Exchange. The Unit Value for financial reporting purposes may differ from the Unit Value for processing transactions. The Unit Value for financial reporting purposes includes security and shareholder transactions through the date of the report. There are no distributions of net investment gains or net investment income to the Option's Account Owners or beneficiaries.

Subscriptions and redemptions: Subscriptions on the Statement of Changes in Fiduciary Net Position include any contributions to the Direct Plan made by Account Owners and any exchanges within the Direct Plan that result in a reinvestment of assets. Redemptions on the Statement of Changes in Fiduciary Net Position include any withdrawals from the Direct Plan made by Account Owners and any exchanges within the Direct Plan that result in a reinvestment of assets.

CONNECTICUT HIGHER EDUCATION TRUST – DIRECT PLAN NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 – Valuation of Investments

Certain investments are valued at fair value utilizing various valuation methods. GASB establishes a hierarchy that prioritizes market inputs to fair valuation methods. The three levels of inputs are:

- Level 1 – quoted prices in active markets for identical securities
- Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, credit spreads, etc.)
- Level 3 – significant unobservable inputs (including the Direct Plan's own assumptions in determining the fair value of investments)

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors including, for example, the type of security, whether the security is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the security. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

A description of the valuation techniques applied to the Direct Plan's major categories of investments follows:

Investments in registered investment companies: These investments are valued at their published net asset value on the valuation date. These investments are categorized in Level 1 of the fair value hierarchy.

Funding Agreement: The Funding Agreement, to which the Principal Plus Interest Option allocates assets, is considered a nonparticipating interest-earning investment contract and is accounted for at cost. Because the Funding Agreement is valued at cost, it is not included in the fair value hierarchy.

As of June 30, 2016, 100% of the value of mutual fund investments in the Direct Plan were valued based on Level 1 inputs.

Note 3 – Direct Plan Fees

Each Option (with the exception of the Principal Plus Interest Option) pays TFI a Direct Plan manager fee of 0.12% of the average daily net assets of the Option. The Direct Plan manager fee is subject to reductions if total assets in the Direct Plan reach certain levels. In addition, Advisors is paid investment management fees on the underlying investments in the Funds.

Prior to June 7, 2016, TFI was paid a Direct Plan manager fee of 0.15% of the average daily net assets of each Option (with the exception of the Principal Plus Interest Option).

The Principal Plus Interest Option does not pay a Direct Plan manager fee or an administrative fee to the Trustee. TIAA Life, the issuer of the funding agreement in which this Option invests and an affiliate of TFI, makes payments to TFI.

For its services administering the Direct Plan, each Option (with the exception of the Principal Plus Interest Option) pays to the Trustee an administrative fee at an annual rate of 0.01% of the average daily net assets of the Option. The fee is deposited in the Direct Plan Administrative Account and then used to pay certain Direct Plan administrative expenses. The assets held in the administrative account with the Trustee were \$639,545 and \$693,023 at June 30, 2016 and 2015, respectively.

Effective August 1, 2011, TFI and the Trustee have agreed to voluntarily waive the Money Market Option's Direct Plan manager fee and administrative fee, respectively, in an attempt to maintain at least a 0.00% return for the Option. TFI and the Trustee may discontinue the waiver at any time without notice. For the year ended June 30, 2016, TFI waived \$16,333 of the Plan manager fee and the Trustee waived \$1,913 of the administrative fee.

Note 4 – Investments

Cash deposits: All cash deposits at June 30, 2016 were covered by federal depository insurance coverage.

Investments: As of June 30, 2016, net unrealized appreciation (depreciation) of portfolio investments was \$281,406,889 consisting of gross unrealized appreciation of \$315,592,346 and gross unrealized depreciation of \$(34,185,457).

CONNECTICUT HIGHER EDUCATION TRUST – DIRECT PLAN
NOTES TO FINANCIAL STATEMENTS (continued)

At June 30, 2016, the Direct Plan’s investments consist of the following:

	<u>Units</u>	<u>Cost</u>	<u>Value</u>
TIAA-CREF Funds (Institutional Class):			
Bond Index Fund	25,527,060	\$ 268,954,733	\$ 284,626,714
Emerging Markets Equity Index Fund	2,426,586	24,172,445	21,281,158
Equity Index Fund	29,305,705	271,957,531	457,755,113
Growth & Income Fund	650,963	7,154,937	7,499,098
High-Yield Fund	477,710	4,608,697	4,442,699
Inflation-Linked Bond Fund	12,006,623	127,421,742	140,237,357
International Equity Index Fund	24,758,194	391,969,801	403,310,987
Mid-Cap Growth Fund	616,787	10,261,228	11,799,142
Mid-Cap Value Fund	606,419	10,231,331	13,177,490
Money Market Fund	90,913,503	90,913,503	90,913,503
Real Estate Securities Fund	5,659,980	59,660,060	90,786,083
S&P 500 Index Fund	4,046,692	50,464,593	95,501,920
Short-Term Bond Fund	13,550,526	140,383,582	140,654,466
Social Choice Equity Fund	2,130,467	29,330,153	34,449,654
Non-Proprietary Funds:			
BlackRock Strategic Income Opportunities Fund (Institutional Class)	23,402,643	237,260,553	227,473,690
DFA Emerging Markets Core Equity Portfolio (Institutional Class)	4,262,897	79,099,813	72,938,162
GE Institutional Small-Cap Equity Fund (Institutional Class)	904,122	13,631,358	15,089,796
GMO Benchmark-Free Allocation Series Fund - R6 Class	191,361	1,906,062	1,825,582
GMO International Equity Allocation Series Fund - R6 Class	767,845	7,562,104	6,434,538
Harding Loevner International Equity Portfolio (Institutional Class)	582,455	10,598,590	10,321,104
MetWest Total Return Bond Fund (Institutional Class)	1,062,232	11,662,268	11,673,928
T. Rowe Price Inst. Large-Cap Growth Fund (Institutional Class)	141,505	3,277,466	3,824,890
T. Rowe Price Inst. Large-Cap Value Fund (Institutional Class)	192,573	3,886,973	3,816,802
Templeton Global Bond Fund (Advisor Class)	8,743,975	111,039,260	98,981,796
TIAA-CREF Life Insurance Company:			
Funding Agreement	16,281,124	252,567,003	252,567,003
		<u>\$ 2,219,975,786</u>	<u>\$ 2,501,382,675</u>

Note 5 – Investment Risks

Certain investments are subject to a variety of investment risks based on the amount of risk in the underlying funds. GASB requires that entities disclose certain essential risk information about deposits and investments. All of the Direct Plan’s Options are uninsured and unregistered and are held by a custodian in the Direct Plan’s name.

Custodial credit risk: Custodial credit risk is the risk that in the event of a failure, the Direct Plan deposits and investments may not be returned. An Account Owner has an investment in an Option and not a direct investment in any underlying mutual fund or other investment vehicle to which funds in that Option may be allocated. Because of this ownership structure, the custodial credit risk is mitigated.

Investment policy: The Direct Plan does not have specific investment policies which address credit, interest rate, foreign currency or custodial credit risk. The Direct Plan's Options are managed based on specific investment objectives and strategies which are disclosed in the current Direct Plan Disclosure Booklet.

CONNECTICUT HIGHER EDUCATION TRUST – DIRECT PLAN
NOTES TO FINANCIAL STATEMENTS (concluded)

Credit risk: The underlying mutual funds investing primarily in fixed income securities are subject to credit risk. Credit risk refers to the ability of the issuer to make timely payments of interest and principal. The underlying mutual funds do not carry a formal credit quality rating. The underlying Funding Agreement is a guaranteed insurance product issued by TIAA-CREF Life. TIAA-CREF Life had a Standard & Poor's credit rating of AA+ at June 30, 2016.

Interest rate risk: Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. At June 30, 2016, the average maturities for the underlying fixed income mutual funds are as follows:

<u>Investment</u>	<u>Value</u>	<u>Average Maturity</u>
TIAA-CREF Funds (Institutional Class):		
Bond Index Fund	\$ 284,626,714	7.39 years
High-Yield Fund	4,442,699	7.69 years
Inflation-Linked Bond Fund	140,237,357	5.97 years
Short-Term Bond Fund	140,654,466	2.50 years
Non-Proprietary Funds:		
BlackRock Strategic Income Opportunities Fund (Institutional Class)	227,473,690	6.07 years
GMO Benchmark-Free Allocation Series Fund - R6 Class	1,825,582	N/A
MetWest Total Return Bond Fund (Institutional Class)	11,673,928	6.37 years
Templeton Global Bond Fund (Advisor Class)	98,981,796	3.26 years

Foreign currency risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments in foreign securities. The Direct Plan does not have any direct investment in foreign securities. Certain Direct Plan Options allocate assets to underlying mutual funds that are exposed to foreign currency risk. At June 30, 2016, the value of investments in underlying mutual funds that significantly invest in foreign denominated contracts are as follows:

<u>Investment</u>	<u>Value</u>
TIAA-CREF Funds (Institutional Class):	
Emerging Markets Equity Index Fund	\$ 21,281,158
International Equity Index Fund	403,310,987
Money Market Fund	90,913,503
Non-Proprietary Funds:	
DFA Emerging Markets Core Equity Portfolio (Institutional Class)	72,938,162
GMO Benchmark-Free Allocation Series Fund - R6 Class	1,825,582
GMO International Equity Allocation Series Fund - R6 Class	6,434,538
Harding Loevner International Equity Portfolio (Institutional Class)	10,321,104
Templeton Global Bond Fund (Advisor Class)	98,981,796

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SUPPLEMENTAL INFORMATION

The following information is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Connecticut Higher Education Trust – Direct Plan (“Direct Plan”). It shows financial information relating to the investment options, which are included in the Direct Plan during the year ended June 30, 2016.

**CONNECTICUT HIGHER EDUCATION TRUST – DIRECT PLAN
STATEMENTS OF FIDUCIARY NET POSITION
JUNE 30, 2016**

**Conservative Managed Allocation Option
Age Bands Within the Conservative Managed Allocation Option**

	Ages 0-3	Ages 4-7	Ages 8-11	Ages 12-14	Ages 15-17	Ages 18 & Over	Total
ASSETS							
Investments, at value:							
TIAA-CREF Funds (Institutional Class):							
Bond Index Fund	\$ 795,401	\$ 1,760,007	\$ 1,974,282	\$ 1,895,802	\$ 2,607,840	\$ 2,238,853	\$ 11,272,185
Equity Index Fund	1,642,917	2,010,988	1,204,067	978,339	871,953	—	6,708,264
Inflation-Linked Bond Fund	379,779	977,119	1,097,553	1,074,623	1,515,380	1,294,116	6,338,570
International Equity Index Fund	1,253,076	1,430,230	851,170	655,694	551,546	—	4,741,716
Money Market Fund	—	—	—	508,637	1,744,856	2,842,536	5,096,029
Real Estate Securities Fund	440,013	514,906	317,820	243,784	201,806	—	1,718,329
Short-Term Bond Fund	—	—	—	1,271,098	4,296,658	6,845,614	12,413,370
SUBTOTAL	4,511,186	6,693,250	5,444,892	6,627,977	11,790,039	13,221,119	48,288,463
Non-Proprietary Funds:							
BlackRock Strategic Income Opportunities Fund	734,768	1,673,079	1,869,119	1,803,646	2,490,453	2,078,919	10,649,984
DFA Emerging Markets Core Equity Portfolio	240,086	342,092	198,234	150,926	129,175	—	1,060,513
Templeton Global Bond Fund	289,847	716,695	805,383	795,921	1,121,573	960,555	4,689,974
SUBTOTAL	1,264,701	2,731,866	2,872,736	2,750,493	3,741,201	3,039,474	16,400,471
TOTAL INVESTMENTS	5,775,887	9,425,116	8,317,628	9,378,470	15,531,240	16,260,593	64,688,934
Dividends and interest receivable	5,179	9,546	10,132	11,233	20,502	19,636	76,228
Receivable from securities transactions	19,517	28,200	—	—	20,382	10,492	78,591
Receivable from Direct Plan units sold	4,854	2,975	1,659	2,355	1,635	17,965	31,443
TOTAL ASSETS	5,805,437	9,465,837	8,329,419	9,392,058	15,573,759	16,308,686	64,875,196
LIABILITIES							
Accrued Direct Plan manager fee	4,318	6,097	6,031	6,124	10,743	9,154	42,467
Accrued administrative fee	296	419	413	420	737	629	2,914
Payable for securities transactions	5,179	9,546	11,791	13,614	20,502	19,636	80,268
Payable for Direct Plan units redeemed	24,370	31,174	—	—	22,017	28,458	106,019
TOTAL LIABILITIES	34,163	47,236	18,235	20,158	53,999	57,877	231,668
NET POSITION	\$ 5,771,274	\$ 9,418,601	\$ 8,311,184	\$ 9,371,900	\$ 15,519,760	\$ 16,250,809	\$ 64,643,528
UNITS OUTSTANDING	417,002	708,368	648,789	772,404	1,341,076	1,485,101	
NET POSITION VALUE PER UNIT	\$13.84	\$13.30	\$12.81	\$12.13	\$11.57	\$10.94	
INVESTMENTS AT COST	\$ 5,062,093	\$ 9,105,025	\$ 8,017,258	\$ 9,104,012	\$ 15,316,564	\$ 16,222,368	\$ 2,827,320

**CONNECTICUT HIGHER EDUCATION TRUST – DIRECT PLAN
STATEMENTS OF FIDUCIARY NET POSITION
JUNE 30, 2016**

**Moderate Managed Allocation Option
Age Bands Within the Moderate Managed Allocation Option**

	<u>Ages 0-3</u>	<u>Ages 4-7</u>	<u>Ages 8-11</u>	<u>Ages 12-14</u>	<u>Ages 15-17</u>	<u>Ages 18 & Over</u>	<u>Total</u>
ASSETS							
Investments, at value:							
TIAA-CREF Funds (Institutional Class):							
Bond Index Fund	\$ 1,965,235	\$ 11,320,959	\$ 34,399,249	\$ 48,043,502	\$ 51,746,451	\$ 31,008,403	\$ 178,483,799
Equity Index Fund	10,997,087	27,928,066	50,081,868	48,764,143	44,255,273	27,360,800	209,387,237
Inflation-Linked Bond Fund	613,006	6,490,251	16,524,149	24,374,645	28,080,383	18,474,811	94,557,245
International Equity Index Fund	7,547,924	21,112,143	36,007,410	30,905,319	31,481,547	18,290,347	145,344,690
Money Market Fund	—	—	—	—	17,057,247	33,824,914	50,882,161
Real Estate Securities Fund	3,193,276	6,704,627	13,047,153	13,130,593	12,849,039	7,841,048	56,765,736
Short-Term Bond Fund	—	—	—	—	43,488,035	79,320,861	122,808,896
SUBTOTAL	24,316,528	73,556,046	150,059,829	165,218,202	228,957,975	216,121,184	858,229,764
Non-Proprietary Funds:							
BlackRock Strategic Income Opportunities Fund	1,854,273	10,445,076	32,457,885	45,324,639	48,944,560	29,473,820	168,500,253
DFA Emerging Markets Core Equity Portfolio	1,431,999	5,684,638	5,191,487	5,382,634	5,995,436	3,792,316	27,478,510
Templeton Global Bond Fund	728,089	3,716,368	12,161,884	17,880,916	20,466,231	13,249,892	68,203,380
SUBTOTAL	4,014,361	19,846,082	49,811,256	68,588,189	75,406,227	46,516,028	264,182,143
TOTAL INVESTMENTS	28,330,889	93,402,128	199,871,085	233,806,391	304,364,202	262,637,212	1,122,411,907
Cash	—	—	93	8	—	65	166
Dividends and interest receivable	18,352	86,749	183,583	244,488	340,196	285,343	1,158,711
Receivable from securities transactions	—	—	—	—	—	276,876	276,876
Receivable from Direct Plan units sold	34,408	44,881	56,816	33,981	59,357	167,056	396,499
TOTAL ASSETS	28,383,649	93,533,758	200,111,577	234,084,868	304,763,755	263,366,552	1,124,244,159
LIABILITIES							
Overdraft payable	—	65	—	—	—	—	65
Accrued Direct Plan manager fee	21,627	68,706	144,982	169,462	215,429	165,859	786,065
Accrued administrative fee	1,481	4,706	9,930	11,607	14,760	11,381	53,865
Payable for securities transactions	28,208	100,149	232,046	274,882	364,988	285,343	1,285,616
Payable for Direct Plan units redeemed	24,552	31,407	8,466	3,487	34,365	443,957	546,234
TOTAL LIABILITIES	75,868	205,033	395,424	459,438	629,542	906,540	2,671,845
NET POSITION	\$ 28,307,781	\$ 93,328,725	\$ 199,716,153	\$ 233,625,430	\$ 304,134,213	\$ 262,460,012	\$ 1,121,572,314
UNITS OUTSTANDING	1,363,748	5,160,556	10,670,521	12,337,886	17,117,022	15,617,812	
NET POSITION VALUE PER UNIT	\$20.76	\$18.09	\$18.72	\$18.94	\$17.77	\$16.81	
INVESTMENTS AT COST	\$ 18,451,892	\$ 70,786,462	\$ 164,096,407	\$ 202,536,778	\$ 279,288,072	\$ 245,219,170	\$ 980,378,781

Aggressive Managed Allocation Option
Age Bands Within the Aggressive Managed Allocation Option

	Ages 0-3	Ages 4-7	Ages 8-11	Ages 12-14	Ages 15-17	Ages 18 & Over	Total
ASSETS							
Investments, at value:							
TIAA-CREF Funds (Institutional Class):							
Bond Index Fund	\$ —	\$ 4,362,696	\$ 10,613,353	\$ 9,303,340	\$ 9,929,612	\$ 4,917,742	\$ 39,126,743
Equity Index Fund	15,103,183	34,466,769	34,951,660	20,177,076	14,078,053	4,942,795	123,719,536
Inflation-Linked Bond Fund	—	2,170,822	5,650,729	4,884,888	5,592,890	2,884,874	21,184,203
International Equity Index Fund	11,025,034	22,686,743	23,790,671	13,051,781	9,541,279	3,278,664	83,374,172
Money Market Fund	—	—	—	—	—	2,138,774	2,138,774
Real Estate Securities Fund	3,614,582	9,248,219	9,094,994	5,289,163	3,766,178	1,288,882	32,302,018
Short-Term Bond Fund	—	—	—	—	—	5,432,200	5,432,200
SUBTOTAL	29,742,799	72,935,249	84,101,407	52,706,248	42,908,012	24,883,931	307,277,646
Non-Proprietary Funds:							
BlackRock Strategic Income Opportunities Fund	—	4,111,645	10,084,386	8,811,041	9,455,630	4,675,484	37,138,186
DFA Emerging Markets Core Equity Portfolio	2,647,265	5,389,237	5,137,631	2,760,815	2,113,012	749,685	18,797,645
Templeton Global Bond Fund	—	1,233,338	4,047,328	3,558,033	3,850,491	2,037,838	14,727,028
SUBTOTAL	2,647,265	10,734,220	19,269,345	15,129,889	15,419,133	7,463,007	70,662,859
TOTAL INVESTMENTS	32,390,064	83,669,469	103,370,752	67,836,137	58,327,145	32,346,938	377,940,505
Cash	—	—	450	70	—	—	520
Dividends and interest receivable	17,180	54,132	78,212	57,860	55,606	33,481	296,471
Receivable from securities transactions	—	—	—	—	—	31,073	31,073
Receivable from Direct Plan units sold	193,946	60,405	41,801	18,777	12,064	16,197	343,190
TOTAL ASSETS	32,601,190	83,784,006	103,491,215	67,912,844	58,394,815	32,427,689	378,611,759
LIABILITIES							
Overdraft payable	50	50	—	—	—	—	100
Accrued Direct Plan manager fee	23,679	59,637	68,234	46,584	39,210	19,737	257,081
Accrued administrative fee	1,623	4,086	4,681	3,194	2,688	1,355	17,627
Payable for securities transactions	186,440	82,293	120,288	76,662	62,070	33,481	561,234
Payable for Direct Plan units redeemed	24,635	32,169	—	—	5,600	47,270	109,674
TOTAL LIABILITIES	236,427	178,235	193,203	126,440	109,568	101,843	945,716
NET POSITION	\$ 32,364,763	\$ 83,605,771	\$ 103,298,012	\$ 67,786,404	\$ 58,285,247	\$ 32,325,846	\$ 377,666,043
UNITS OUTSTANDING	2,327,653	6,049,898	7,320,903	4,753,513	4,129,402	2,437,471	
NET POSITION VALUE PER UNIT	\$13.90	\$13.82	\$14.11	\$14.26	\$14.11	\$13.26	
INVESTMENTS AT COST	\$ 22,353,926	\$ 69,172,080	\$ 93,295,529	\$ 61,635,394	\$ 54,109,516	\$ 30,785,036	\$ 331,351,481

**CONNECTICUT HIGHER EDUCATION TRUST – DIRECT PLAN
STATEMENTS OF FIDUCIARY NET POSITION
JUNE 30, 2016**

Multi-Fund Investment Options

	Global Equity Index Option	Global Tactical Asset Allocation Option	International Equity Index Option	Active Global Equity Option	U.S. Equity Index Option	High Equity Balanced Option
ASSETS						
Investments, at value:						
TIAA-CREF Funds (Institutional Class):						
Bond Index Fund	\$ —	\$ —	\$ —	\$ —	\$ —	40,562,637
Emerging Markets Equity Index Fund	21,281,158	—	—	—	—	—
Equity Index Fund	88,254,383	—	—	—	29,685,693	—
Growth & Income Fund	—	—	—	7,499,098	—	—
High-Yield Fund	—	—	—	—	—	—
Inflation-Linked Bond Fund	—	—	—	—	—	10,104,172
International Equity Index Fund	81,556,400	—	2,796,153	—	—	85,497,856
Mid-Cap Growth Fund	—	—	—	534,118	—	11,265,024
Mid-Cap Value Fund	—	—	—	565,573	—	12,611,917
Money Market Fund	—	—	—	—	—	—
S&P 500 Index Fund	—	—	—	—	—	95,501,920
Social Choice Equity Fund	—	—	—	—	—	—
SUBTOTAL	191,091,941	—	2,796,153	8,598,789	29,685,693	255,543,526
Non-Proprietary Funds:						
BlackRock Strategic Income Opportunities Fund	—	—	—	—	—	—
DFA Emerging Markets Core Equity Portfolio	—	—	—	—	—	25,601,494
GE Institutional Small-Cap Equity Fund	—	—	—	1,478,154	—	13,611,642
GMO Benchmark-Free Allocation Series Fund – R6	—	1,825,582	—	—	—	—
GMO International Equity Allocation Fund Class – R6	—	—	—	6,434,538	—	—
Harding Loevner International Equity Portfolio	—	—	—	10,321,104	—	—
MetWest Total Return Bond Fund	—	—	—	—	—	—
T. Rowe Price Inst. Large-Cap Growth Fund	—	—	—	3,824,890	—	—
T. Rowe Price Inst. Large-Cap Value Fund	—	—	—	3,816,802	—	—
Templeton Global Bond Fund	—	—	—	—	—	5,477,019
SUBTOTAL	—	1,825,582	—	25,875,488	—	44,690,155
TIAA-CREF Life Insurance Company:						
Funding Agreement	—	—	—	—	—	—
TOTAL INVESTMENTS	191,091,941	1,825,582	2,796,153	34,474,277	29,685,693	300,233,681
Cash	—	—	—	6	—	—
Dividends and interest receivable	—	—	—	—	—	242,694
Receivable from Direct Plan units sold	44,408	5,822	10,999	17,540	32,949	124,700
TOTAL ASSETS	191,136,349	1,831,404	2,807,152	34,491,823	29,718,642	300,601,075
LIABILITIES						
Accrued Direct Plan manager fee	133,788	1,293	1,893	23,828	18,076	211,564
Accrued administrative fee	9,168	89	130	1,633	1,243	14,495
Payable for securities transactions	30,973	5,822	10,999	16,540	27,596	305,935
Payable for Direct Plan units redeemed	13,435	—	—	1,000	5,353	61,459
TOTAL LIABILITIES	187,364	7,204	13,022	43,001	52,268	593,453
NET POSITION	\$ 190,948,985	\$ 1,824,200	\$ 2,794,130	\$ 34,448,822	\$ 29,666,374	\$ 300,007,622
UNITS OUTSTANDING	12,674,895	191,906	306,366	2,377,676	2,905,230	15,977,717
NET POSITION VALUE PER UNIT	\$15.07	\$9.51	\$9.12	\$14.49	\$10.21	\$18.78
INVESTMENTS AT COST	\$ 157,880,686	\$ 1,906,063	\$ 2,966,072	\$ 35,133,383	\$ 28,935,917	\$ 247,516,042

<u>Active Fixed- Income Option</u>	<u>Social Choice Option</u>	<u>Index Fixed- Income Option</u>	<u>Money Market Option</u>	<u>Principal Plus Interest Option</u>	<u>Total</u>
\$ —	\$ —	\$ 15,181,350	\$ —	\$ —	\$ 55,743,987
—	—	—	—	—	21,281,158
—	—	—	—	—	117,940,076
—	—	—	—	—	7,499,098
4,442,699	—	—	—	—	4,442,699
8,053,167	—	—	—	—	18,157,339
—	—	—	—	—	169,850,409
—	—	—	—	—	11,799,142
—	—	—	—	—	13,177,490
—	—	—	32,796,539	—	32,796,539
—	—	—	—	—	95,501,920
—	34,449,654	—	—	—	34,449,654
12,495,866	34,449,654	15,181,350	32,796,539	—	582,639,511
11,185,267	—	—	—	—	11,185,267
—	—	—	—	—	25,601,494
—	—	—	—	—	15,089,796
—	—	—	—	—	1,825,582
—	—	—	—	—	6,434,538
—	—	—	—	—	10,321,104
11,673,928	—	—	—	—	11,673,928
—	—	—	—	—	3,824,890
—	—	—	—	—	3,816,802
5,884,395	—	—	—	—	11,361,414
28,743,590	—	—	—	—	101,134,815
—	—	—	—	252,567,003	252,567,003
41,239,456	34,449,654	15,181,350	32,796,539	252,567,003	936,341,329
12	30	—	—	—	48
70,127	—	27,724	8,729	—	349,274
17,839	12,134	174,518	51,908	194,743	687,560
41,327,434	34,461,818	15,383,592	32,857,176	252,761,746	937,378,211
29,107	23,356	9,742	20,308	—	472,955
1,994	1,602	669	921	—	31,944
82,177	12,135	201,342	51,112	36,743	781,374
5,789	—	900	9,525	158,000	255,461
119,067	37,093	212,653	81,866	194,743	1,541,734
\$ 41,208,367	\$ 34,424,725	\$ 15,170,939	\$ 32,775,310	\$ 252,567,003	\$ 935,836,477
2,640,465	1,993,857	1,265,216	3,233,279	16,281,124	
\$15.61	\$17.27	\$11.99	\$10.14	\$15.51	
\$ 41,765,753	\$ 29,330,153	\$ 14,620,593	\$ 32,796,539	\$ 252,567,003	\$ 845,418,204

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**CONNECTICUT HIGHER EDUCATION TRUST – DIRECT PLAN
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016**

Conservative Managed Allocation Option

Age Bands Within the Conservative Managed Allocation Option

	<u>Ages 0-3</u>	<u>Ages 4-7</u>	<u>Ages 8-11</u>	<u>Ages 12-14</u>	<u>Ages 15-17</u>	<u>Ages 18 & Over</u>	<u>Total</u>
ADDITIONS							
Subscriptions	\$ 2,903,863	\$ 4,393,759	\$ 4,662,746	\$ 6,260,844	\$ 10,174,141	\$ 10,964,359	\$ 39,359,712
Increase from investment operations:							
Dividends from underlying funds	132,808	173,771	170,672	162,483	249,291	192,664	1,081,689
Realized gain distributions from underlying funds	45,363	51,402	43,651	36,052	39,416	17,160	233,044
Net unrealized appreciation on underlying fund shares	—	—	—	—	40,388	74,655	115,043
Net increase from investment operations	178,171	225,173	214,323	198,535	329,095	284,479	1,429,776
TOTAL ADDITIONS	\$ 3,082,034	\$ 4,618,932	\$ 4,877,069	\$ 6,459,379	\$ 10,503,236	\$ 11,248,838	\$ 40,789,488
DEDUCTIONS							
Redemptions	\$ 2,887,720	\$ 1,960,495	\$ 3,258,546	\$ 3,780,214	\$ 6,346,955	\$ 6,569,533	\$ 24,803,463
Expenses:							
Direct Plan manager fee	8,601	11,519	11,503	11,769	20,270	17,611	81,273
Administrative fee	581	780	778	797	1,372	1,193	5,501
Total expenses	9,182	12,299	12,281	12,566	21,642	18,804	86,774
Net unrealized depreciation on underlying fund shares	79,696	109,610	5,299	6,223	—	—	200,828
Net realized loss on investments in underlying fund shares	80,584	25,379	93,290	64,510	92,480	59,276	415,519
TOTAL DEDUCTIONS	\$ 3,057,182	\$ 2,107,783	\$ 3,369,416	\$ 3,863,513	\$ 6,461,077	\$ 6,647,613	\$ 25,506,584
NET POSITION							
Net increase in fiduciary net position	24,852	2,511,149	1,507,653	2,595,866	4,042,159	4,601,225	15,282,904
Beginning of year	5,746,422	6,907,452	6,803,531	6,776,034	11,477,601	11,649,584	49,360,624
End of year	\$ 5,771,274	\$ 9,418,601	\$ 8,311,184	\$ 9,371,900	\$ 15,519,760	\$ 16,250,809	\$ 64,643,528
UNITS							
Sold	216,034	338,487	373,725	526,455	893,785	1,014,164	3,362,650
Redeemed	(214,308)	(151,097)	(260,045)	(317,938)	(556,427)	(609,479)	(2,109,294)
NET INCREASE (DECREASE)	1,726	187,390	113,680	208,517	337,358	404,685	1,253,356

**CONNECTICUT HIGHER EDUCATION TRUST – DIRECT PLAN
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016**

**Moderate Managed Allocation Option
Age Bands Within the Moderate Managed Allocation Option**

	Ages 0-3	Ages 4-7	Ages 8-11	Ages 12-14	Ages 15-17	Ages 18 & Over	Total
ADDITIONS							
Subscriptions	\$ 13,874,395	\$ 30,359,348	\$ 59,607,207	\$ 89,189,188	\$ 118,111,803	\$ 117,965,213	\$ 429,107,154
Increase from investment operations:							
Dividends from underlying funds	708,162	2,216,439	4,682,789	5,316,622	5,955,705	4,071,481	22,951,198
Realized gain distributions from underlying funds	286,690	737,779	1,500,448	1,617,687	1,504,555	832,281	6,479,440
Net realized gain on investments in underlying fund shares	—	1,725,105	—	—	—	—	1,725,105
Net increase from investment operations	994,852	4,679,323	6,183,237	6,934,309	7,460,260	4,903,762	31,155,743
TOTAL ADDITIONS	\$ 14,869,247	\$ 35,038,671	\$ 65,790,444	\$ 96,123,497	\$ 125,572,063	\$ 122,868,975	\$ 460,262,897
DEDUCTIONS							
Redemptions	\$ 14,438,762	\$ 38,166,343	\$ 72,047,365	\$ 101,793,010	\$ 110,435,688	\$ 104,574,162	\$ 441,455,330
Expenses:							
Direct Plan manager fee	43,468	142,820	301,481	350,414	432,895	336,340	1,607,418
Administrative fee	2,937	9,647	20,363	23,670	29,257	22,747	108,621
Total expenses	46,405	152,467	321,844	374,084	462,152	359,087	1,716,039
Net unrealized depreciation on underlying fund shares	948,062	4,883,988	5,343,738	4,498,507	4,083,983	393,079	20,151,357
Net realized loss on investments in underlying fund shares	88,379	—	424,134	742,069	388,745	1,536,008	3,179,335
TOTAL DEDUCTIONS	\$ 15,521,608	\$ 43,202,798	\$ 78,137,081	\$ 107,407,670	\$ 115,370,568	\$ 106,862,336	\$ 466,502,061
NET POSITION							
Net increase (decrease) in fiduciary net position	(652,361)	(8,164,127)	(12,346,637)	(11,284,173)	10,201,495	16,006,639	(6,239,164)
Beginning of year	28,960,142	101,492,852	212,062,790	244,909,603	293,932,718	246,453,373	1,127,811,478
End of year	<u>\$ 28,307,781</u>	<u>\$ 93,328,725</u>	<u>\$ 199,716,153</u>	<u>\$ 233,625,430</u>	<u>\$ 304,134,213</u>	<u>\$ 262,460,012</u>	<u>\$ 1,121,572,314</u>
UNITS							
Sold	687,823	1,720,845	3,260,601	4,822,374	6,779,473	7,132,719	24,403,835
Redeemed	(712,425)	(2,160,689)	(3,937,930)	(5,500,978)	(6,331,412)	(6,319,511)	(24,962,945)
NET INCREASE (DECREASE)	(24,602)	(439,844)	(677,329)	(678,604)	448,061	813,208	(559,110)

Aggressive Managed Allocation Option
Age Bands Within the Aggressive Managed Allocation Option

	Ages 0-3	Ages 4-7	Ages 8-11	Ages 12-14	Ages 15-17	Ages 18 & Over	Total
ADDITIONS							
Subscriptions	\$ 17,722,976	\$ 30,514,498	\$ 43,070,595	\$ 31,366,962	\$ 29,777,016	\$ 18,240,209	\$ 170,692,256
Increase from investment operations:							
Dividends from underlying funds	762,187	1,974,198	2,064,943	1,440,915	1,124,427	523,288	7,889,958
Realized gain distributions from underlying funds	309,965	815,970	764,465	507,680	361,252	131,441	2,890,773
Net unrealized appreciation on underlying fund shares	—	—	—	—	—	12,181	12,181
Net increase from investment operations	1,072,152	2,790,168	2,829,408	1,948,595	1,485,679	666,910	10,792,912
TOTAL ADDITIONS	\$ 18,795,128	\$ 33,304,666	\$ 45,900,003	\$ 33,315,557	\$ 31,262,695	\$ 18,907,119	\$ 181,485,168
DEDUCTIONS							
Redemptions	\$ 14,902,756	\$ 29,686,633	\$ 23,549,201	\$ 24,622,766	\$ 18,735,596	\$ 13,564,643	\$ 125,061,595
Expenses:							
Direct Plan manager fee	46,321	121,901	132,501	92,916	74,859	39,023	507,521
Administrative fee	3,133	8,237	8,965	6,283	5,065	2,641	34,324
Total expenses	49,454	130,138	141,466	99,199	79,924	41,664	541,845
Net unrealized depreciation on underlying fund shares	849,016	2,089,298	2,241,822	1,289,897	696,604	—	7,166,637
Net realized loss on investments in underlying fund shares	471,776	1,069,764	191,452	338,314	246,367	331,740	2,649,413
TOTAL DEDUCTIONS	\$ 16,273,002	\$ 32,975,833	\$ 26,123,941	\$ 26,350,176	\$ 19,758,491	\$ 13,938,047	\$ 135,419,490
NET POSITION							
Net increase in fiduciary net position	2,522,126	328,833	19,776,062	6,965,381	11,504,204	4,969,072	46,065,678
Beginning of year	29,842,637	83,276,938	83,521,950	60,821,023	46,781,043	27,356,774	331,600,365
End of year	\$ 32,364,763	\$ 83,605,771	\$ 103,298,012	\$ 67,786,404	\$ 58,285,247	\$ 32,325,846	\$ 377,666,043
UNITS							
Sold	1,313,756	2,270,687	3,130,568	2,254,549	2,160,003	1,401,380	12,530,943
Redeemed	(1,098,093)	(2,205,078)	(1,712,312)	(1,769,601)	(1,355,711)	(1,041,687)	(9,182,482)
NET INCREASE (DECREASE)	215,663	65,609	1,418,256	484,948	804,292	359,693	3,348,461

**CONNECTICUT HIGHER EDUCATION TRUST – DIRECT PLAN
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016**

Multi-Fund Investment Options

	Global Equity Index Option	Global Tactical Asset Allocation Option	International Equity Index Option	Active Global Equity Option	U.S. Equity Index Option	High Equity Balanced Option
ADDITIONS						
Subscriptions	\$ 25,025,567	\$ 1,017,820	\$ 2,326,419	\$ 9,591,863	\$ 24,363,346	\$ 32,566,978
Increase from investment operations:						
Interest	—	—	—	—	—	—
Dividends from underlying funds	4,620,097	9,773	58,985	489,971	324,517	6,546,124
Realized gain distributions from underlying funds	1,033,247	35,015	—	1,336,813	198,591	4,149,777
Net unrealized appreciation on underlying fund shares	—	—	—	—	839,967	—
Net realized gain on investments in underlying fund shares	—	—	—	—	—	1,652,000
Net increase from investment operations	5,653,344	44,788	58,985	1,826,784	1,363,075	12,347,901
TOTAL ADDITIONS	\$ 30,678,911	\$ 1,062,608	\$ 2,385,404	\$ 11,418,647	\$ 25,726,421	\$ 44,914,879
DEDUCTIONS						
Redemptions	\$ 25,376,438	\$ 295,698	\$ 905,398	\$ 6,301,735	\$ 2,849,230	\$ 45,101,011
Expenses:						
Direct Plan manager fee	278,429	2,288	3,283	48,015	27,093	440,733
Administrative fee	18,810	155	223	3,246	1,844	29,773
Total expenses	297,239	2,443	3,506	51,261	28,937	470,506
Less: Fee waived by Direct Plan Manager	—	—	—	—	—	—
Less: State fee waiver	—	—	—	—	—	—
Net expenses	297,239	2,443	3,506	51,261	28,937	470,506
Net unrealized depreciation on underlying fund shares	14,202,582	57,530	124,595	2,310,813	—	18,098,973
Net realized loss on investments in underlying fund shares	778,552	30,968	144,159	484,542	80,391	—
TOTAL DEDUCTIONS	\$ 40,654,811	\$ 386,639	\$ 1,177,658	\$ 9,148,351	\$ 2,958,558	\$ 63,670,490
NET POSITION						
Net increase (decrease) in fiduciary net position	(9,975,900)	675,969	1,207,746	2,270,296	22,767,863	(18,755,611)
Beginning of year	200,924,885	1,148,231	1,586,384	32,178,526	6,898,511	318,763,233
End of year	\$ 190,948,985	\$ 1,824,200	\$ 2,794,130	\$ 34,448,822	\$ 29,666,374	\$ 300,007,622
UNITS						
Sold	1,689,437	107,715	249,752	675,226	2,506,745	1,780,275
Redeemed	(1,695,883)	(31,222)	(100,395)	(441,631)	(290,645)	(2,440,946)
NET INCREASE (DECREASE)	(6,446)	76,493	149,357	233,595	2,216,100	(660,671)

Active Fixed- Income Option	Social Choice Option	Index Fixed- Income Option	Money Market Option	Principal Plus Interest Option	Total
\$ 8,608,989	\$ 5,976,462	\$ 6,104,815	\$ 18,635,639	\$ 79,658,392	\$ 213,876,290
—	—	—	—	3,740,944	3,740,944
947,186	576,481	290,772	50,274	—	13,914,180
223,910	1,050,721	18,120	—	—	8,046,194
—	—	491,192	—	—	1,331,159
—	—	—	—	—	1,652,000
1,171,096	1,627,202	800,084	50,274	3,740,944	28,684,477
\$ 9,780,085	\$ 7,603,664	\$ 6,904,899	\$ 18,685,913	\$ 83,399,336	\$ 242,560,767
\$ 10,177,771	\$ 4,113,659	\$ 3,320,941	\$ 12,678,479	\$ 63,520,821	\$ 174,641,181
59,599	47,080	18,672	41,878	—	967,070
4,027	3,183	1,264	2,834	—	65,359
63,626	50,263	19,936	44,712	—	1,032,429
—	—	—	(16,333)	—	(16,333)
—	—	—	(1,913)	—	(1,913)
63,626	50,263	19,936	26,466	—	1,014,183
385,715	717,271	—	—	—	35,897,479
268,487	141,250	22,332	—	—	1,950,681
\$ 10,895,599	\$ 5,022,443	\$ 3,363,209	\$ 12,704,945	\$ 63,520,821	\$ 213,503,524
(1,115,514)	2,581,221	3,541,690	5,980,968	19,878,515	29,057,243
42,323,881	31,843,504	11,629,249	26,794,342	232,688,488	906,779,234
\$ 41,208,367	\$ 34,424,725	\$ 15,170,939	\$ 32,775,310	\$ 252,567,003	\$ 935,836,477
564,200	361,633	527,822	1,839,513	5,176,607	15,478,925
(665,967)	(248,336)	(289,011)	(1,251,502)	(4,135,406)	(11,590,944)
(101,767)	113,297	238,811	588,011	1,041,201	3,887,981

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**CONNECTICUT HIGHER EDUCATION TRUST – DIRECT PLAN
FINANCIAL HIGHLIGHTS
FOR THE YEAR ENDED JUNE 30, 2016**

**Conservative Managed Allocation Option
Age Bands Within the Conservative Managed Allocation Option**

	<u>Ages 0-3</u>	<u>Ages 4-7</u>	<u>Ages 8-11</u>	<u>Ages 12-14</u>	<u>Ages 15-17</u>	<u>Ages 18 & Over</u>
FOR A UNIT OUTSTANDING THROUGHOUT THE YEAR						
Net position value, beginning of year	\$ 13.84	\$ 13.26	\$ 12.71	\$ 12.02	\$ 11.44	\$ 10.78
Gain (loss) from investment operations:						
Net investment income(a)	0.29	0.27	0.25	0.22	0.19	0.16
Net realized and unrealized loss on investments	<u>(0.29)</u>	<u>(0.23)</u>	<u>(0.15)</u>	<u>(0.11)</u>	<u>(0.06)</u>	<u>—</u>
Total gain from investment operations	<u>0.00</u>	<u>0.04</u>	<u>0.10</u>	<u>0.11</u>	<u>0.13</u>	<u>0.16</u>
Net position value, end of year	<u>\$ 13.84</u>	<u>\$ 13.30</u>	<u>\$ 12.81</u>	<u>\$ 12.13</u>	<u>\$ 11.57</u>	<u>\$ 10.94</u>
 TOTAL RETURN	 <u>0.00%</u>	 <u>0.30%</u>	 <u>0.79%</u>	 <u>0.92%</u>	 <u>1.14%</u>	 <u>1.48%</u>
RATIOS AND SUPPLEMENTAL DATA						
Net position at end of year (in thousands)	\$ 5,771	\$ 9,419	\$ 8,311	\$ 9,372	\$ 15,520	\$ 16,251
Ratio of expenses to average net position(b)	0.16%	0.16%	0.16%	0.16%	0.16%	0.16%
Ratio of net investment income to average net position	2.13%	2.07%	2.04%	1.88%	1.66%	1.46%

(a) Based on average units outstanding

(b) Does not include expenses on Direct Plan investments in the TIAA-CREF Funds and other third party mutual funds

**CONNECTICUT HIGHER EDUCATION TRUST – DIRECT PLAN
FINANCIAL HIGHLIGHTS
FOR THE YEAR ENDED JUNE 30, 2016**

**Moderate Managed Allocation Option
Age Bands Within the Moderate Managed Allocation Option**

	<u>Ages 0-3</u>	<u>Ages 4-7</u>	<u>Ages 8-11</u>	<u>Ages 12-14</u>	<u>Ages 15-17</u>	<u>Ages 18 & Over</u>
FOR A UNIT OUTSTANDING THROUGHOUT THE YEAR						
Net position value, beginning of year	\$ 20.86	\$ 18.12	\$ 18.69	\$ 18.82	\$ 17.63	\$ 16.65
Gain (loss) from investment operations:						
Net investment income(a)	0.46	0.38	0.39	0.39	0.33	0.27
Net realized and unrealized loss on investments	<u>(0.56)</u>	<u>(0.41)</u>	<u>(0.36)</u>	<u>(0.27)</u>	<u>(0.19)</u>	<u>(0.11)</u>
Total gain (loss) from investment operations	<u>(0.10)</u>	<u>(0.03)</u>	<u>0.03</u>	<u>0.12</u>	<u>0.14</u>	<u>0.16</u>
Net position value, end of year	<u>\$ 20.76</u>	<u>\$ 18.09</u>	<u>\$ 18.72</u>	<u>\$ 18.94</u>	<u>\$ 17.77</u>	<u>\$ 16.81</u>
 TOTAL RETURN	 <u>(0.48)%</u>	 <u>(0.22)%</u>	 <u>0.16%</u>	 <u>0.64%</u>	 <u>0.79%</u>	 <u>0.96%</u>
RATIOS AND SUPPLEMENTAL DATA						
Net position at end of year (in thousands)	\$ 28,308	\$ 93,329	\$ 199,716	\$ 233,625	\$ 304,134	\$ 262,460
Ratio of expenses to average net position(b)	0.16%	0.16%	0.16%	0.16%	0.16%	0.16%
Ratio of net investment income to average net position	2.25%	2.14%	2.14%	2.09%	1.88%	1.63%

(a) Based on average units outstanding

(b) Does not include expenses on Direct Plan investments in the TIAA-CREF Funds and other third party mutual funds

Aggressive Managed Allocation Option
Age Bands Within the Aggressive Managed Allocation Option

	<u>Ages 0-3</u>	<u>Ages 4-7</u>	<u>Ages 8-11</u>	<u>Ages 12-14</u>	<u>Ages 15-17</u>	<u>Ages 18 & Over</u>
FOR A UNIT OUTSTANDING THROUGHOUT THE YEAR						
Net position value, beginning of year	\$ 14.13	\$ 13.92	\$ 14.15	\$ 14.25	\$ 14.07	\$ 13.17
Gain (loss) from investment operations:						
Net investment income(a)	0.31	0.30	0.29	0.30	0.28	0.24
Net realized and unrealized loss on investments	<u>(0.54)</u>	<u>(0.40)</u>	<u>(0.33)</u>	<u>(0.29)</u>	<u>(0.24)</u>	<u>(0.15)</u>
Total gain (loss) from investment operations	<u>(0.23)</u>	<u>(0.10)</u>	<u>(0.04)</u>	<u>0.01</u>	<u>0.04</u>	<u>0.09</u>
Net position value, end of year	<u>\$ 13.90</u>	<u>\$ 13.82</u>	<u>\$ 14.11</u>	<u>\$ 14.26</u>	<u>\$ 14.11</u>	<u>\$ 13.26</u>
 TOTAL RETURN	 <u>(1.63)%</u>	 <u>(0.72)%</u>	 <u>(0.28)%</u>	 <u>0.07%</u>	 <u>0.28%</u>	 <u>0.68%</u>
RATIOS AND SUPPLEMENTAL DATA						
Net position at end of year (in thousands)	\$ 32,365	\$ 83,606	\$ 103,298	\$ 67,786	\$ 58,285	\$ 32,326
Ratio of expenses to average net position(b)	0.16%	0.16%	0.16%	0.16%	0.16%	0.16%
Ratio of net investment income to average net position	2.27%	2.24%	2.15%	2.14%	2.06%	1.82%

(a) Based on average units outstanding

(b) Does not include expenses on Direct Plan investments in the TIAA-CREF Funds and other third party mutual funds

**CONNECTICUT HIGHER EDUCATION TRUST – DIRECT PLAN
FINANCIAL HIGHLIGHTS
FOR THE YEAR ENDED JUNE 30, 2016**

Multi-Fund Investment Options

	Global Equity Index Option	Global Tactical Asset Allocation Option	International Equity Index Option	Active Global Equity Option	U.S. Equity Index Option	High Equity Balanced Option	Active Fixed- Income Option	Social Choice Option
FOR A UNIT OUTSTANDING THROUGHOUT THE YEAR								
Net position value, beginning of year	\$ 15.84	\$ 9.95	\$ 10.10	\$ 15.01	\$ 10.01	\$ 19.16	\$ 15.43	\$ 16.93
Gain (loss) from investment operations:								
Net investment income(a)	0.34	0.04	0.23	0.19	0.16	0.37	0.34	0.27
Net realized and unrealized loss on investments	(1.11)	(0.48)	(1.21)	(0.71)	0.04	(0.75)	(0.16)	0.07
Total gain (loss) from investment operations	(0.77)	(0.44)	(0.98)	(0.52)	0.20	(0.38)	0.18	0.34
Net position value, end of year	\$ 15.07	\$ 9.51	\$ 9.12	\$ 14.49	\$ 10.21	\$ 18.78	\$ 15.61	\$ 17.27
TOTAL RETURN	(4.86)%	(4.42)%	(9.70)%	(3.46)%	2.00%	(1.98)%	1.17%	2.01%
RATIOS AND SUPPLEMENTAL DATA								
Net position at end of year (in thousands)	\$ 190,949	\$ 1,824	\$ 2,794	\$ 34,449	\$ 29,666	\$ 300,008	\$ 41,208	\$ 34,425
Ratio of expenses to average net position before expense waiver (b)	0.16%	0.16%	0.16%	0.16%	0.16%	0.16%	0.16%	0.16%
Ratio of expenses to average net position after expense waiver (b)	0.16%	0.16%	0.16%	0.16%	0.16%	0.16%	0.16%	0.16%
Ratio of net investment income to average net position	2.30%	0.47%	2.49%	1.35%	1.60%	2.04%	2.19%	1.65%

(a) Based on average units outstanding

(b) Does not include expenses on Direct Plan investments in the TIAA-CREF Funds and other third party mutual funds

<u>Index Fixed- Income Option</u>	<u>Money Market Option</u>	<u>Principal Plus Interest Option</u>
\$ 11.33	\$ 10.13	\$ 15.27
0.25	0.01	0.24
<u>0.41</u>	<u>—</u>	<u>—</u>
<u>0.66</u>	<u>0.01</u>	<u>0.24</u>
<u>\$ 11.99</u>	<u>\$ 10.14</u>	<u>\$ 15.51</u>
<u>5.83%</u>	<u>0.10%</u>	<u>1.57%</u>

\$ 15,171	\$ 32,775	\$ 252,567
0.16%	0.16%	—%
0.16%	0.09%	—%
2.14%	0.08%	1.59%



Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Trustee of the Connecticut Higher Education Trust Program-Direct Plan:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the basic financial statements of the Connecticut Higher Education Trust - Direct Plan (the “Direct Plan”), which comprise the Statement of Fiduciary Net Position as of June 30, 2016, and the related Statement of Changes in Fiduciary Net Position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 17, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Direct Plan’s internal control over financial reporting (“internal control”) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Direct Plan’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Direct Plan’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Direct Plan’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Direct Plan’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Direct Plan's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Direct Plan's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

August 17, 2016