

STATE OF CONNECTICUT OFFICE OF THE TREASURER

2008



SHORT-TERM INVESTMENT FUND COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ended June 30, 2008

STATE OF CONNECTICUT

Office of the State Treasurer



The State Motto "Qui Transtulit Sustinet," (He Who Transplanted Still Sustains), has been associated with the various versions of the state seal from the creation of the Saybrook Colony Seal.

STATE OF CONNECTICUT OFFICE OF THE TREASURER

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For the fiscal year ended June 30, 2008

Prepared by: State of Connecticut
Office of the Treasurer
55 Elm Street
Hartford, CT 06106-1773



SHORT-TERM INVESTMENT FUND
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR FISCAL YEAR ENDED JUNE 30, 2008

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Introductory
Section





State of Connecticut
Office of the Treasurer

DENISE L. NAPPIER
TREASURER

HOWARD G. RIFKIN
DEPUTY TREASURER

December 31, 2008

Comprehensive Annual Financial Report (CAFR)
for the State of Connecticut's Short-Term Investment Fund (STIF) for the fiscal year ended June 30, 2008

Responsibility for both the accuracy of the data and the completeness and fairness of this report rests with management. All disclosures necessary and required to enable fellow beneficiaries and the financial community to gain an understanding of STIF's financial activities have been included. We believe the enclosed financial statements and data are presently fairly in all material respects and are reported in a manner designed to present the financial position and results of STIF's operations accurately.

STIF was created by legislation enacted in 1972, and is a state and local government investment pool managed by the Treasurer of the State of Connecticut. Investors in the Fund include the State, state agencies and authorities, municipalities, and other political subdivisions of the State. The primary objective of the Fund is to provide the greatest possible return while, first, protecting principal and, second, providing liquidity for investors. The Fund's Investment Policy ensures strong asset diversification by security type and issuer, comprising high-quality, very liquid securities with a relatively short average maturity. In addition, the Fund maintains a Designated Surplus Reserve to protect against security defaults or the erosion of security values due to any significant unforeseen market changes.

STIF's return for fiscal year 2008 of 4.13% outperformed its benchmark by 6 basis points -- resulting in \$3 million in additional interest income for the State, state agencies and municipalities, while contributing \$1.9 million to reserves. STIF's reserves are an important pillar of our investment pool, and STIF is one of the few government investment pools to contain a reserve. STIF's \$1.00 per share net asset value has been maintained during one of the worst market crisis in U.S. history. Moreover, by virtue of the overall soundness of STIF, Standard & Poor's (S&P) has affirmed and maintained STIF's AAAM rating, which represents the highest rating issued by S&P for money market funds and investment pools.

At the end of Fiscal Year 2008, STIF had \$5.0 billion in assets under management and with municipalities opening 59 new STIF accounts the total number of municipal accounts now stands at 637.

Beginning in the Spring of 2007, concerns over sub-prime mortgage delinquencies and foreclosures and the health of related securities began to develop. During the Summer and Fall of 2007, those concerns turned into full-fledged credit market disruptions. As the difficulties of the subprime mortgage industry led to a wide-scale credit crunch inside and outside the U.S. In response to these market issues, we adjusted our investment strategy to reduce exposure to mortgage-related and other corporate securities, increase liquidity, and reduce average portfolio maturity.

The credit market dislocations resulted in difficulties for many AAA-rated securities, including, as we have often reported to investors of STIF, Cheyne Finance, which was part of STIF's portfolio. Cheyne was placed under the control of receivers in September 2007 and stopped payments to investors in October 2007. In July 2008, the notes were restructured for senior creditors such as STIF and we converted our Cheyne position into unrated Gryphon funding notes that give STIF a pro rata share, along with other senior creditors, of ownership of the portfolio of securities that was underlying the Cheyne notes. This report values the Cheyne (now Gryphon) notes at a level that represents a recovery value of approximately 76 percent of the original \$100 million investment. Cash distributions beginning in April 2008 have totaled \$28.5 million. We have transferred \$24 million from STIF's reserves to cover the reduction in market value. As of December 15, 2008 our remaining reserves total

LETTER FROM THE TREASURER

\$31.4 million, or 0.8 percent of fund assets. The reserves are being rebuilt daily at the annual rate of 10 basis points until they reach one percent of total assets. We are quite confident that STIF remains a secure and good investment both for the State and for its participating units of local government.

Management is responsible for maintaining a system of adequate internal accounting controls designed to provide reasonable assurance that transactions are executed in accordance with management's general or specific authorization, and are recorded as necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with generally accepted accounting principles. We believe the internal controls in effect during the fiscal year ended June 30, 2008, adequately safeguard STIF's assets and provide reasonable assurance regarding the proper recording of financial transactions. In addition, S&P monitors our portfolio on a weekly basis to ensure that we maintain the safety and liquidity investors expect. During the past several months of market unrest, S&P has been monitoring STIF daily.

In addition, the Investment Advisory Council and the Treasurer's Cash Management Advisory Board review STIF's portfolio periodically throughout the year, and the Fund's Rates of Return were examined by UHY, Certified Public Accountants, as presented in this report.

As of June 30, 2008, STIF administered 1,094 accounts including 39 for the State Treasury, 418 for state agencies and authorities, and 637 for municipalities and local entities. This level of participation reflects, we believe, the continued confidence in the Fund as a solid investment vehicle for Connecticut communities.

The State of Connecticut's independent Auditors of Public Accounts conducted an annual audit of this Comprehensive Annual Financial Report in accordance with generally accepted auditing standards. The auditors' report on the basic financial statements is included in the Financial Section of this report.

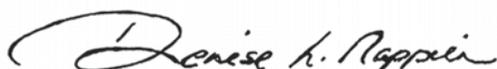
The Government Accounting Standards Board requires that STIF provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal overview is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found in the Financial Section immediately following the report of the independent auditors.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Fund a Certificate of Achievement for Excellence in Financial Reporting for its Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2007. The Certificate is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

STIF Express, a secure on-line investor system, allows investors to view account balances, transaction histories and income distributions, and gives investors the ability to initiate deposits and withdrawals via the Internet. In addition, a section of the Treasury website is dedicated to STIF investors, and features helpful information such as the current daily rate, historical data, and links to annual and quarterly reports. In addition, there are forms for enrolling in special services such as Grant Express, Debt Service Express, and Clean Water Fund Express. The STIF site and copies of this Report may be accessed through the Treasury's website, www.state.ct.us/ott.

We appreciate your participation in STIF, and hope that the information we have provided will prove both interesting and useful. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Treasurer, 55 Elm Street, Hartford, Connecticut 06106-1773 or by telephone to (860) 702-3000.

Sincerely,



Denise L. Nappier
Treasurer
State of Connecticut



State of Connecticut
Office of the Treasurer

DENISE L. NAPIER
TREASURER

HOWARD G. RIFKIN
DEPUTY TREASURER

Connecticut State Treasury
Hartford, Connecticut
December 31, 2008

The Office of the Treasurer assumes the daily responsibility of managing the assets of the Short-Term Investment Fund (STIF) pool. State Street Bank and Trust Company serves as custodian for the pool. All investments must be made in instruments authorized by Connecticut General Statutes (CGS) 3-27c - 3-27f. The most recent guidelines under which the pool operates were adopted and approved by the State Treasurer on August 21, 1996. It is our belief that the contents of this Annual Report make evident the State of Connecticut Treasurer's Office support of the safe custody and conscientious stewardship of the Short-Term Investment Fund.

While STIF's financial statements and the related financial data contained in this Annual Report have been prepared in conformity with generally accepted accounting principles as a "2a7-like" pool, and such financial statements are audited annually by the State Auditors of Public Accounts, the ultimate accuracy and validity of this information is the responsibility of the management of the State Treasurer's Office. To carry out this responsibility, the Treasury maintains financial policies, procedures, accounting systems and internal controls which management believes provide reasonable, but not absolute, assurance that accurate financial records are maintained and investments and other assets are safeguarded.

In management's opinion, STIF's internal control structure is adequate to ensure that the financial information in this report presents fairly STIF's operation and financial condition.

Sincerely,

A handwritten signature in black ink, appearing to read "H. Rifkin", with a long horizontal line extending to the right.

Howard G. Rifkin
Deputy Treasurer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Connecticut State Treasurer's Short-Term Investment Fund

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Handwritten signature of Oliver S. Cox in black ink.

President

Handwritten signature of Jeffrey R. Emer in black ink.

Executive Director

Mission Statement

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

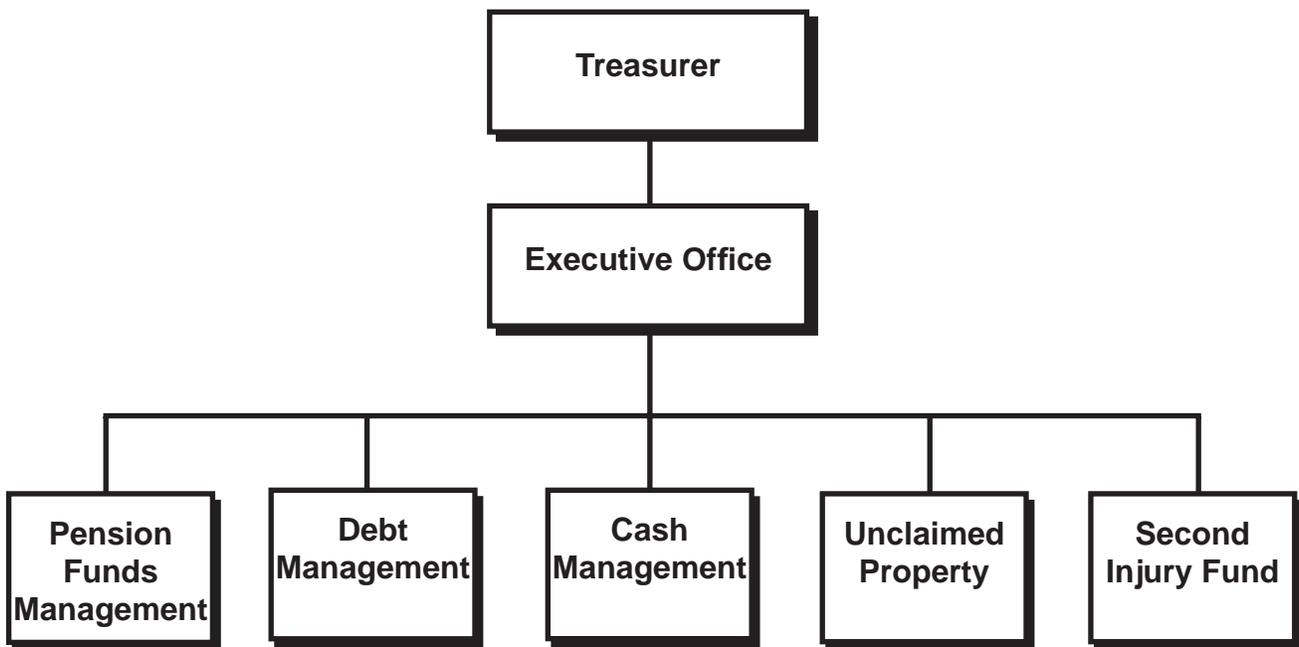
Statutory Responsibility

The Office of the Treasurer was established following the adoption of the fundamental orders of Connecticut in 1638. The Treasurer shall receive all funds belonging to the State and disburse the same only as may be directed by law, as described in Article Fourth, Section 22 of the Connecticut Constitution and in Title 3 of the Connecticut General Statutes.

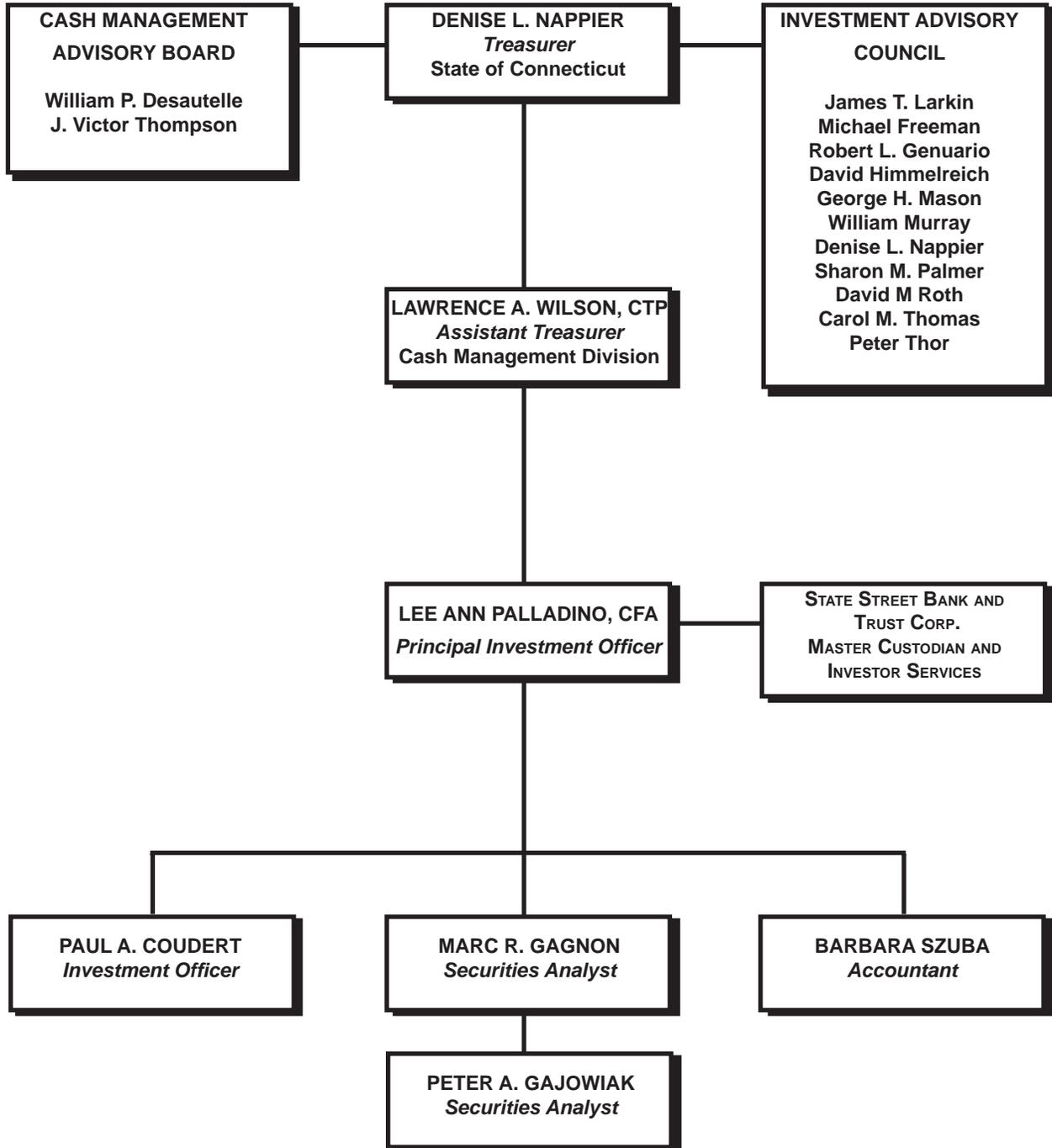
The Treasurer, as Chief Fiscal Officer for the State, oversees the prudent preservation and management of State funds, including the administration of a \$25.9 billion portfolio of pension assets and over \$5.7 billion in total State, local short-term, and other investments.

Public Service

The Office of the Treasurer includes an Executive Office as well as five divisions, each with specific responsibilities: Pension Funds Management, Cash Management, Debt Management, Unclaimed Property, and the Second Injury Fund.



SHORT-TERM INVESTMENT FUND ADMINISTRATION



As of October 15, 2008.

LIST OF PRINCIPAL OFFICIALS

SHORT-TERM INVESTMENT FUND

55 Elm Street
6th Floor
Hartford, CT. 06106-2773
Telephone: (860) 702-3118
Facsimile: (860) 702-3048
World Wide Web:
www.state.ct.us/ott

Treasurer, State of Connecticut
DENISE L. NAPPIER (860) 702-3001

Deputy Treasurer, State of Connecticut
HOWARD G. RIFKIN (860) 702-3292

Assistant Treasurer, Cash Management
LAWRENCE A. WILSON, CTP (860) 702-3126

STIF INVESTMENT MANAGEMENT

Principal Investment Officer
LEE ANN PALLADINO, CFA (860) 702-3255

Investment Officer
PAUL A. COUDERT (860) 702-3254

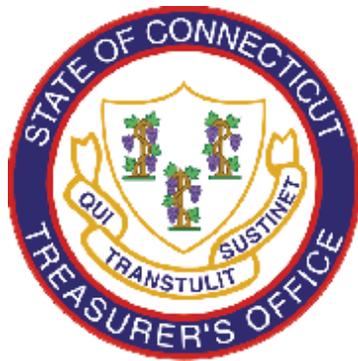
Securities Analyst
MARC R. GAGNON (860) 702-3158

Securities Analyst
PETER A. GAJOWIAK (860) 702-3124

STIF INVESTOR SERVICES

Accountant
BARBARA SZUBA (860) 702-3118

CUSTODIAN AND INVESTOR SERVICES
STATE STREET BANK AND TRUST CORPORATION
1-800-754-8430



Financial

Section



STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

KEVIN P. JOHNSTON

STATE CAPITOL
210 CAPITOL AVENUE
HARTFORD, CONNECTICUT 06106-1559

ROBERT G. JAEKLE

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statement of net assets of the Short-Term Investment Fund, as of June 30, 2008, and the related statements of changes in net assets for the fiscal years ended June 30, 2008, and 2007. These financial statements are the responsibility of the management of the State Treasury. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

Our procedures included confirmation of securities owned as of June 30, 2008, by correspondence with the custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Short-Term Investment Fund as of June 30, 2008, and the results of its operations and changes in net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the financial statements of the Short-Term Investment Fund taken as a whole. The List of Investments at June 30, 2008, contained in the Investment Section, is presented for purposes of additional analysis and is not a required part of the financial statements of the Short-Term Investment Fund. Such information has been subjected to the auditing procedures applied in the audit of the financial statements of the Short-Term Investment Fund and, in our opinion, is fairly presented in all material respects in relation to the financial statements of the Short-Term Investment Fund taken as a whole. We did not audit the Schedules of Rates of Return contained in the Statistical Section which were examined by other auditors whose report thereon has been included in the Statistical Section. The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the Management's Discussion and Analysis and express no opinion on it. The Introductory Section, Investment Section and Statistical Section have not been audited except as specifically noted in this auditors' opinion.

Handwritten signature of Kevin P. Johnston in cursive.

Kevin P. Johnston
Auditor of Public Accounts

Handwritten signature of Robert G. Jaekle in cursive.

Robert G. Jaekle
Auditor of Public Accounts

December 31, 2008
State Capitol
Hartford, Connecticut

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents Management's Discussion and Analysis (MD&A) of the Comprehensive Annual Financial Report (CAFR) of the State of Connecticut's Office of the Treasurer Short-Term Investment Fund (STIF) financial position and performance for the fiscal year ended June 30, 2008. It is presented as a narrative overview and analysis. Management of the State of Connecticut's Office of the Treasurer encourage readers to review it in conjunction with the transmittal letter included in the Introductory Section at the front of this report and the financial statements in the Financial Section that follow.

The Short-Term Investment Fund serves as an investment vehicle for the operating cash of the State Treasury, State agencies and authorities, and municipalities, and other political subdivisions of the State. STIF represents an investment pool of short-term money market instruments and is managed for the sole benefit of the participants. All income is distributed monthly after deducting operating costs of approximately 3 basis points and an allocation to the Fund's Designated Surplus Reserve of 10 basis points (until the reserve reaches one percent of fund assets). The Treasurer's Short-Term Investment Fund is an AAAM rated investment pool of high-quality, short-term money market instruments.

The STIF financial statements reported by the Treasurer's Office for which the Treasurer has fiduciary responsibility for the investment thereof begin on page 15 and provide detailed information about the Fund.

FINANCIAL HIGHLIGHTS Condensed Financial Information

Short Term Investment Fund Net Assets and Changes in Net Assets

Net Assets - The net assets held in trust for participants under management in the Short-Term Investment Fund at the close of the fiscal year were \$5.0 billion, an increase of \$0.050 billion from the previous year. The principal reasons for the increase was an overall increase of \$0.227 billion in State Treasury and State Agencies and Authorities investments partly offset by decreases of \$0.155 billion in investments in the Fund from its Municipal and Local customers. In addition, net assets reflect a December 5, 2008 transaction recognizing a \$24 million reduction in the value of our Cheyne (Gryphon) securities.

The net assets under management in the Short-Term Investment Fund at the close of the 2007 fiscal year were \$5.0 billion, a decrease of \$0.4 billion from the prior year. The principal reasons for the decrease was an overall decrease of \$0.596 billion in State Treasury and State Agencies and Authorities investments and an increase of \$0.166 billion in investments in the Fund from its Municipal and Local customers.

Operating Income - General financial market conditions produced an annual total return of 4.13%, net of operating expenses and allocations to Fund reserves, compared to an annual total return of 5.54%, net of operating expenses and allocations to Fund reserves in the previous fiscal year. The annual total return exceeded that achieved by its benchmark, which equaled 4.07%, by 6 basis points, resulting in \$3 million in additional interest income for Connecticut governments and their taxpayers. During fiscal year 2008, the Federal Funds target rate was reduced by 325 basis points from 5.25 percent to 2.00 percent. STIF decreased its weighted average maturity during this time frame from 50 days at the end of Fiscal Year 2007 to 19 days at the end of Fiscal Year 2008.

General financial market conditions produced an annual total return of 5.54%, net of operating expenses and allocations to Fund reserves in fiscal 2007, compared to an annual total return of 4.38%, net of operating expenses and allocations to Fund reserves in the previous fiscal year. The annual total return exceeded that achieved by its benchmark, which equaled 5.14%, by 40 basis points, resulting in \$21 million in additional interest income for Connecticut governments and their taxpayers.

Designated Surplus Reserve - In order to support the creditworthiness of the Fund and provide some additional protection against potential credit losses, a designated surplus reserve (reserve) is maintained. The amount transferred to the reserve is equal to the annualized rate of 0.1 percent of the end of day investment balances. No transfer is made if the reserve account is equal to or greater than 1.0 percent of the daily investment balance. The fund operated most of the year in a reserve transfer position due to the high level of assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS

During the fiscal year, \$1.9 million was transferred into the reserve and \$24 million was transferred from the reserve due to the December 5, 2008 transaction that recognized a \$24 million reduction in the value of our Cheyne (Gryphon) securities, bringing the total reserve to \$29.1 million. The reserve as of June 30, 2008 totaled \$53.1 million prior to reflecting that transaction.

Table 1 - Net Assets

Assets	2008	Increase (Decrease)	2007	Increase (Decrease)	2006
Investments in Securities, at Amortized Cost	\$5,048,295,420	\$32,342,982	\$5,015,952,438	\$9426,522,038)	\$5,442,474,476
Receivables and Other	15,198,433	4,683,437	10,514,996	525,735	9,989,261
Total Assets	5,063,493,853	37,026,419	5,026,467,434	(425,996,303)	5,452,463,737
Liabilities	(8,972,197)	13,399,480	(22,371,677)	(74,492)	(22,297,185)
Net Assets	<u>\$5,054,521,656</u>	<u>\$50,425,899</u>	<u>\$5,004,095,757</u>	<u>\$(426,070,795)</u>	<u>\$5,430,166,552</u>

Table 2 - Changes in Net Assets

Assets	2008	Increase (Decrease)	2007	Increase (Decrease)	2006
Net Interest Income	\$208,172,504	\$(78,999,837)	\$287,172,341	\$69,309,063	\$217,863,278
Net Realized Gains	43,496	(194,231)	237,727	184,693	53,034
Net Decrease in Fair Value of Investments	(24,000,000)	(24,000,000)	-	-	-
Total Investment Income	184,216,000	(103,194,068)	287,410,068	69,493,756	217,916,312
Purchase of Units by Participants	14,455,641,703	745,295,241	13,710,346,462	402,140,035	13,308,206,427
Total Additions	14,639,857,703	642,101,173	13,997,756,530	471,633,791	13,526,122,739
Deductions					
Distribution of Income to Participants	205,184,804	(77,159,946)	282,344,750	(69,698,072)	212,646,678
Redemption of Units by Participants	14,383,089,216	242,826,417	14,140,262,799	(1,944,420,366)	12,195,842,433
Operating Expenses	1,157,785	(61,991)	1,219,776	111,137	1,330,913
Total Deductions	14,589,431,805	165,604,480	14,423,827,325	(2,014,007,301)	12,409,820,024
Change in Net Assets	50,425,898	476,496,693	(426,070,795)	(1,542,373,510)	1,116,302,715
Total net assets – beginning	5,004,095,757	(426,070,795)	5,430,166,552	1,116,302,715	4,313,863,837
Total net assets - ending	<u>\$5,054,521,655</u>	<u>\$50,425,898</u>	<u>\$5,004,095,757</u>	<u>\$(426,070,795)</u>	<u>\$5,430,166,552</u>

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the Office of the Treasurer's Short-Term Investment Fund basic financial statements, which are comprised of: 1) Statement of Net Assets, 2) Statement of Changes in Net Assets and 3) Notes to the Financial Statements.

The Statement of Net Assets and the Statement of Changes in Net Assets are two financial statements that report information about the Short-Term Investment Fund. These statements include all assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets (page 15) presents all of the Short-Term Investment Fund's assets and liabilities, with the difference between the two reported as "net assets".

The Statement of Changes in Net Assets (page 16) presents information showing how the Short-Term Investment Fund's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the Short-Term Investment Fund's financial statements. The notes can be found on pages 17-22 of this report.

ECONOMIC CONDITIONS AND OUTLOOK

As Fiscal Year 2008 began, fallout from the sub-prime lending problems began to have broad and deep impacts on the financial markets. By the end of the fiscal year, the Federal Open Market Committee (FOMC) had cut the Fed Funds target rate seven times totaling 325 basis points from 5.25 percent to 2.00 percent by April 30, 2008 to combat what had become a widespread credit market disruption.

During Fiscal Year 2009, economic problems have widened and deepened. Equity markets have fallen precipitously, with the S&P down approximately 36 percent from July 1, 2008 to December 1, 2008. Labor markets have experienced higher unemployment, up 1.2 percentage points, to 6.7 percent in November since July 1, and non-farm payrolls have lost 1,450,000 jobs during that period. The economy as a whole has contracted, with growth for the first and second quarters expected to hit -0.5 percent and -3.0 percent, respectively. Throughout this period the Fed's FOMC has continued to lower interest rates, with the Fed Funds target rate cut to 1.00 percent on October 29, 2008. On December 16, 2008, citing the fact that "the outlook for economic activity has weakened further, labor market conditions have deteriorated and the available data indicate that consumer spending, business investment, and industrial production have declined" the FOMC established a range for the Fed Funds target rate of 0.00 to 0.25 percent.

CONTACTING THE OFFICE OF THE TREASURER

This financial report is designed to provide a general overview of the Office of the Treasurer's finances and to show the Office's accountability for the money it receives. Questions about this report or requests for additional information should be addressed to:

Connecticut State Treasury
55 Elm Street
Hartford, CT 06106-1773
Telephone (860) 702-3000
www.state.ct.us/ott

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

**STATEMENT OF NET ASSETS
JUNE 30, 2008**

	<u>June 30, 2008</u>
ASSETS	
Investment in Securities, at Amortized Cost (Note 7)	\$ 5,048,295,420
Accrued Interest and Other Receivables	15,074,018
Prepaid Assets	<u>124,414</u>
Total Assets	<u>5,063,493,852</u>
LIABILITIES	
Distribution Payable	8,962,975
Interest Payable	<u>9,222</u>
Total Liabilities	<u>8,972,197</u>
NET ASSETS HELD IN TRUST FOR PARTICIPANTS	<u><u>\$ 5,054,521,655</u></u>

See accompanying Notes to the Financial Statements.

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

**STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND JUNE 30, 2007**

	<u>2008</u>	<u>2007</u>
ADDITIONS		
Operations		
Interest Income	\$ 208,172,504	\$ 287,172,341
Net Investment Income	208,172,504	287,172,341
Net Realized Gains	43,496	237,727
Net Decrease in Fair Value of Investments	(24,000,000)	-
Net Increase Resulting from Operations	<u>184,216,000</u>	<u>287,410,068</u>
Share Transactions at Net Asset Value of \$1.00 per Share		
Purchase of Units	14,455,641,703	13,710,346,462
TOTAL ADDITIONS	<u>14,639,857,703</u>	<u>13,997,756,530</u>
DEDUCTIONS		
Distribution to Participants		
Distributions to Participants (Notes 2 & 6)	(205,184,804)	(282,344,750)
Total Distributions Paid and Payable	<u>(205,184,804)</u>	<u>(282,344,750)</u>
Share Transactions at Net Asset Value of \$1.00 per Share		
Redemption of Units	(14,383,089,216)	(14,140,262,799)
Operations		
Operating Expenses	(1,157,785)	(1,219,776)
TOTAL DEDUCTIONS	<u>(14,589,431,805)</u>	<u>(14,423,827,325)</u>
CHANGE IN NET ASSETS	50,425,898	(426,070,795)
Net Assets Held in Trust for Participants		
Beginning of Year	5,004,095,757	5,430,166,552
End of Year	<u>\$ 5,054,521,655</u>	<u>\$ 5,004,095,757</u>

See accompanying Notes to the Financial Statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1: INTRODUCTION AND BASIS OF PRESENTATION

The Short-Term Investment Fund ("STIF" or the "Fund") is a money market investment pool managed by the Treasurer of the State of Connecticut. Section 3-27 of the Connecticut General Statutes (CGS) created STIF. Pursuant to CGS 3-27a - 3-27f, the State, municipal entities, and political subdivisions of the State are eligible to invest in the Fund. The State Treasurer is authorized to invest monies of STIF in United States government and agency obligations, certificates of deposit, commercial paper, corporate bonds, saving accounts, bankers' acceptances, repurchase agreements, asset-backed securities, and student loans. STIF is authorized to issue an unlimited number of units.

For State of Connecticut financial reporting purposes, STIF is considered to be a mixed investment pool – a pool having external and internal portions. The internal portion (i.e., the portion that belongs to investors that are part of the State's financial reporting entity) is not displayed in the State's basic financial statements. Instead, each fund type's investment in STIF is reported as "cash equivalents" in the statement of net assets. The external portion (i.e., the portion that belongs to investors which are not part of the State's financial reporting entity) is recorded in an investment trust fund in the basic financial statements.

The Fund is considered a "2a7-like" pool and, as such, reports its investments at amortized cost (which approximates fair value). A 2a7-like pool is not necessarily registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940 that allows money market mutual funds to use amortized cost to report net assets.

Related Party Transactions.

STIF had no related party transactions during the fiscal year with the State of Connecticut and its component units including leasing arrangements, the performance of administrative services and the execution of securities transactions.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***Financial Reporting Entity.***

The Fund is a Fiduciary Investment Trust Fund. A fiduciary fund is used to account for governmental activities that are similar to those found in the private sector where the determination of net income is necessary or useful to sound financial administration. The generally accepted accounting principles ("GAAP") used for fiduciary funds are generally those applicable to similar businesses in the private sector. The Fund uses the accrual basis of accounting.

Security Valuation of Financial Instruments.

The assets of the Fund are carried at amortized cost (which approximates fair value) except for Cheyne (Gryphon) which is reflected at fair value (in the List of Investments). All premiums and discounts on securities are amortized or accreted on a straight line basis.

Security Transactions.

Purchases and sales of investments are recorded on a trade date basis. Gains and losses on investments are realized at the time of the sales and are calculated on the basis of an identified block or blocks of securities having an identified amortized cost. Bond cost is determined by identified lot.

Interest Income.

Interest income, which includes amortization of premiums and accretion of discounts, is accrued as earned.

Expenses.

Operating and interest expenses of STIF are accrued as incurred.

Fiscal Year.

The fiscal year of STIF ends on June 30.

NOTES TO FINANCIAL STATEMENTS (Continued)

Distributions to Investors.

Distributions to investors are earned on units outstanding from date of purchase to date of redemption. Income is calculated daily based upon the actual earnings of the Fund net of administrative expenses and, if applicable, an allocation to the Designated Surplus Reserve. Distributions are paid monthly within two business days of the end of the month, and are based upon actual number of days in a year. Shares are sold and redeemed at a constant \$1.00 net asset value per share, which is consistent with the per share net asset value of the Fund, excluding the Designated Surplus Reserve.

Designated Surplus Reserve.

While STIF is managed prudently to protect against losses from credit and market changes, the Fund is not insured or guaranteed by any government. Therefore, the maintenance of capital cannot be fully assured. In order to provide some protection to the shareholders of STIF from potential credit and market risks, the Treasurer has designated that a portion of each day's net earnings be transferred to the Designated Surplus Reserve (Reserve). Such amounts are restricted in nature and are not available for current distribution to shareholders. The amount transferred daily to the Designated Surplus Reserve is equal to 0.1 percent of end of day investment balance divided by the actual number of days in the year. No transfer is to be made if the reserve account is equal to or greater than 1.0 percent of the daily investment balance. If net losses significant to the aggregate portfolio are realized, the Treasurer is authorized to transfer funds from the Reserve to Participants with Units Outstanding.

As of June 30, 2008, the balance in the Designated Surplus Reserve was \$29,143,785 which reflects \$1.9 million in contributions during the year and a December 5, 2008 transaction recognizing a \$24 million transfer due to a reduction in the value of our Cheyne (Gryphon) securities. (See note 9.) The reserve totaled \$53.1 million prior to reflecting that transaction.

Estimates.

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities in the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3: DEPOSIT AND INVESTMENT DISCLOSURES

STIF's investment practice is to invest all cash balances; as such, there was no uninvested cash at June 30, 2008. All securities of STIF are registered under the State Street Bank nominee name, Pond, Tide & Co., for the State of Connecticut nominee name, Conn. STIF & Co., and held by a designated agent of the State.

Custodial Credit Risk – Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the STIF's deposits may not be recovered. The STIF follows policy parameters that limit deposits in any one entity to a maximum of ten percent of total assets. Further, the certificates of deposits must be issued from commercial banks whose short-term debt is rated at least A-1 by Standard and Poor's and F-1 by Fitch and whose long-term debt is rated at least A and its issuer rating is at least "C".

Certificates of Deposit in banks are insured up to \$100,000, any amount above this limit is considered uninsured. Additionally, state banking regulation requires all financial institutions that accept State of Connecticut public deposits to segregate collateral against these deposits in an amount equal to ten percent of the outstanding deposit. As of fiscal year-end, certificates of deposit in the Short-Term Investment Fund totaled \$2.100 billion. Of that amount, \$1.925 billion was exposed to custodial credit risk representing the portion that was uninsured and uncollateralized.

Interest Rate Risk – Investments

Interest rate risk is the risk that changes in the general level of interest rates will adversely affect the fair value of an investment. The STIF's policy for managing interest rate is to limit investments to a very short

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

NOTES TO FINANCIAL STATEMENTS (Continued)

weighted average maturity, not to exceed 90-days, and to comply with Standard and Poor's requirement that the weighted average maturity not exceed 60 days. The weighted-average maturity is calculated daily, and reported to Standard and Poor's weekly to ensure compliance. As of June 30, 2008 the weighted average maturity of the STIF was 19 days. The breakdown of the STIF's maturity profile is outlined below.

Investments	Amortized Cost	Investment Maturity in Years	
		Less than One	One - Five
Deposit Instruments:			
Fixed	\$2,100,000,000	\$2,100,000,000	
Floaters	3,503,081	3,503,081	
Floating Rate Notes			
Corporate Notes	347,403,636	325,794,927	21,608,709
Structured Investment Vehicles	357,296,656	307,308,744	49,987,912
Secured Liquidity Notes	47,018,645	47,018,645	
Federal Agency Securities			
Fixed	822,354,375	822,354,375	
Floaters	99,806,170	99,806,170	
Repurchase Agreements	820,912,000	820,912,000	
Government Money Market Funds	450,000,000	450,000,000	
Money Market Funds (LMCS)	857	857	
Total	\$5,048,295,420	\$4,976,698,799	\$71,596,621

Additionally, STIF is allowed by policy to invest in floating-rate debt securities. Further investment in floating-rate securities with maturities up to two years is limited to no more than 20 percent of the overall portfolio. For purposes of the weighted average maturity calculation and classification in the chart above, variable-rate securities are calculated using their interest rate reset date. Because these securities re-price frequently to prevailing market rates, interest rate risk is substantially reduced. As of fiscal year-end, the STIF portfolio held \$855 million in variable rate securities.

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The STIF manages its credit risk by investment only in debt securities that fall within the highest short-term or long-term rating categories by nationally recognized rating organizations.

Investments	Amortized Cost	A-1+	AAA	AA+	AA	AA-	A	D
Deposit Instruments:								
Fixed	\$2,100,000,000	\$-	\$-	\$-	900,000,000	1,200,000,000	\$-	\$-
Floaters	3,503,081	-	-	-	-	3,503,081	-	-
Floating Rate Notes								
Corporate Notes	347,403,636	-	30,199,499	4,998,872	88,184,025	104,102,970	119,918,270	-
Structured Inv. Vehicles	357,296,656	-	299,964,772	-	-	-	-	57,331,884
Secured Liquidity Notes	47,018,645	47,018,645	-	-	-	-	-	-
Federal Agency Securities								
Fixed	822,354,375	-	822,354,375	-	-	-	-	-
Floaters	99,806,170	-	99,806,170	-	-	-	-	-
Repurchase Agreements	820,912,000	820,912,000	-	-	-	-	-	-
Govt. Money Market Funds	450,000,000	-	450,000,000	-	-	-	-	-
Money Market Funds	857	857	-	-	-	-	-	-
Total	5,048,295,420	867,931,502	1,702,324,816	4,998,872	988,184,025	1,307,606,051	119,918,270	57,331,884

* Repurchase Agreements by rating of underlying collateral

Concentration of Credit Risk

The Short-Term Investment Fund limits the amount it may invest in any one issuer to an amount not to exceed 10 percent other than overnight or two-business-day repurchase agreements and U.S. government and agency securities. As of June 30, 2008, the table below lists issuers with concentrations of greater than 5 percent but less than 10 percent of the total portfolio.

Issuer	Fair Value	Percent of Total Portfolio
Fannie Mae	299,270,722	5.9%
Freddie Mac	398,674,750	7.9%

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

NOTES TO FINANCIAL STATEMENTS (Continued)

RBS Citizens NA	450,000,000	8.9%
Societe Generale	350,000,000	6.9%
Toronto-Dominion	400,000,000	7.9%
JP Morgan Chase Bank	450,000,000	8.9%
Wachovia Bank	450,000,000	8.9%

NOTE 4: CUSTODIAN

State Street Bank was appointed as custodian for STIF effective February 1, 1996. STIF pays a percentage of the fixed annual rate of \$110,000 for the Short-Term Investment Unit. This percentage is calculated annually by determining the STIF fund size relative to that of the total Short-Term Investment Unit.

NOTE 5: ADMINISTRATION

STIF is managed and administered by employees of the State of Connecticut Treasury. Salaries and fringe benefit costs as well as operating expenses are charged directly to the Fund.

NOTE 6: DISTRIBUTIONS TO INVESTORS

The components of the distributions to investors are as follows for the income earned during the twelve months ended:

<u>Distributions:</u>	<u>2008</u>	<u>2007</u>
July	\$23,237,650	\$24,345,190
August	26,051,672	27,564,817
September	24,381,386	25,645,680
October	23,109,275	23,994,071
November	19,591,395	21,300,897
December	15,941,753	20,518,091
January	16,365,735	22,743,650
February	14,164,444	22,710,701
March	12,867,724	23,294,961
April	10,148,379	23,423,230
May	10,362,416	24,433,435
June (Payable at June 30)	8,962,975	22,370,027
Total Distribution Paid & Payable	<u>\$205,184,804</u>	<u>\$282,344,750</u>

NOTE 7: INVESTMENTS IN SECURITIES

The following is a summary of investments in securities, at amortized cost and fair value as of June 30, 2008:

<u>Investment</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Deposit Instruments	\$2,103,503,081	\$2,103,495,275
Floating Rate Notes	704,700,292	692,839,714
Secured Liquidity Notes	47,018,645	47,018,645
Federal Agency Securities	922,160,545	922,159,092
Money Market Funds	857	857
Government Money Market Funds	450,000,000	450,000,000
Repurchase Agreements	820,912,000	820,912,000
TOTAL	<u>\$5,048,295,420</u>	<u>\$5,036,425,583</u>

Repurchase agreements are agreements to purchase securities from an entity for a specified amount of cash and to resell the securities to the entity at an agreed upon price and time. They are used to enhance returns

NOTES TO FINANCIAL STATEMENTS (Continued)

with minimal risk on overnight cash deposits of the Fund. Such transactions are only entered into with primary government securities dealers who report directly to the Federal Reserve Bank of New York and commercial banks that meet certain quality standards. All repurchase agreements are collateralized at between 100 percent and 102 percent of the securities' value.

In an effort to improve disclosures associated with derivative contracts, the Government Accounting Standards Board (GASB) issued GASB Technical Bulletin No. 2003-1 (TB2003-1), Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets, effective for the periods ending after June 15, 2003. TB 2003-1 clarifies guidance on derivative disclosures that are not reported at fair value on the statement of net assets and defines a derivative instrument as a financial instrument or other contract with all three of the following characteristics: a) it has (1) one or more underlyings (a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates or other variable) and (2) one or more notional amounts (a number of currency units, shares, bushels, pounds, or other units specified in the contract) b) it requires no initial investment or smaller than would be required for other types of contracts c) its terms require or permit net settlement, it can readily be settled net by a means outside the contract, or it provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

For the fiscal year ended June 30, 2008, the Short-Term Investment Fund held adjustable-rate corporate notes, U.S. government agencies and bank notes whose interest rates vary directly with short-term money market indices and are reset either daily, monthly or quarterly. Such securities allow the Fund to earn higher interest rates as market rates increase, thereby increasing fund yields and protecting against the erosion of market values from rising interest rates. These adjustable rate securities have similar exposures to credit and legal risks as fixed-rate securities from the same issuers.

NOTE 8: CREDIT RATING OF THE FUND

Throughout the year ended June 30, 2008, STIF was rated AAAM, its highest rating, by Standard and Poor's Corporation ("S&P"). In July 2007, following a review of the portfolio and STIF's investment policies, management and procedures, S&P reaffirmed STIF's AAAM rating and has continued to maintain this high rating through out the current fiscal year. In order to maintain an AAAM rating, STIF adheres to the following guidelines:

- Weekly portfolio and market value calculations;
- Maintenance of credit quality standards for portfolio securities with at least 75% of such securities rated A-1+ or invested in overnight repurchase agreements with dealers or banks rated A-1;
- Ensuring adequate portfolio diversification standards with no more than 5% of the portfolio invested in an individual security and no more than 10% invested in an individual issuer, excluding one and two day repurchase agreements and U.S. government agency securities; and
- A limit on the overall portfolio weighted average maturity, (currently no more than 60 days).

It is the Treasurer's intention to take any and all such actions as are needed from time to time to maintain the AAAM rating.

NOTE 9: SUBSEQUENT EVENTS

As of June 30, 2008, STIF had investments in Cheyne Finance medium-term floating rate notes, which have been affected by credit market dislocations and have not matured. The notes were placed under the control of receivers and payments to investors were suspended in October 2007. The notes were subsequently downgraded by Standard & Poor's to D.

In April 2008, STIF received a cash distribution of \$18.7 million, reducing our total exposure from \$100 million to \$81.3 million, or 1.6 percent of STIF's approximately \$5.0 billion in assets. Cash distributions over the past nine months have totaled \$28.5 million.

NOTES TO FINANCIAL STATEMENTS (Continued)

Subsequent to the end of the fiscal year, the Cheyne notes were restructured effective July 23, 2008. STIF chose to convert the Cheyne position into pass-through notes that, in effect, give us ownership with other senior creditors of the portfolio of securities underlying the Cheyne notes. Our analysis indicated that the pass-through notes, which were organized by Goldman Sachs in the name of Gryphon Funding, offered the greatest value for our investors by affording the best opportunity for the upside recovery of asset values as markets stabilize.

In order to hold the pass-through notes, we amended our STIF Investment Policy effective July 16, 2008, because the notes are unrated and their final maturity based on the longest security in the portfolio is in excess of STIF's maturity guidelines. The notes have a monthly put feature that enables STIF to receive an in-kind portion of the portfolio, which can then be sold.

This report values the Cheyne (now Gryphon) notes at a level that represents a recovery value of approximately 76 percent of the original \$100 million investment. STIF's \$53.1 million in reserves on June 30, 2008 allowed us to cover the value adjustment without affecting STIF's \$1 per share net asset value, or the loss of principal to any STIF investor. As of December 15, 2008, STIF's available reserves totaled \$31.4 million.

The realization of the value reduction in the Cheyne/Gryphon securities and the transfer of \$24 million of reserves to cover the value reduction occurred on December 5, 2008. As these adjustments occurred prior to the December 31, 2008 audit report date, the June 30, 2008 financial statements were retroactively adjusted to reflect the transaction as required by accounting standards. Thus, these statements now reflect the post-adjustment reserve level at \$29.1 million as of June 30, 2008. Prior to December 5, 2008, we had referred to the reserves at their pre-adjustment levels.

As of June 30, 2008, STIF owned \$698 million in securities of Fannie Mae and Freddie Mac, two federal government sponsored enterprises, or agencies. On September 7, 2008, the federal government announced that it was placing the agencies into a conservatorship. The U.S. Treasury's takeover essentially upgraded an implied federal guarantee that the debt will be paid with an effective guarantee.

As of June 30, 2008, STIF owned \$250 million in The Reserve's U.S. Government money market mutual fund. Effective September 17, 2008, with the permission of the U.S. Securities and Exchange Commission, the fund suspended redemptions due to a large volume of redemption requests resulting from a reduction in value of another Reserve money fund. The U.S. Government Fund's \$1 per share NAV has not been affected by these events. Furthermore, The U. S. Government Fund has been accepted into the Treasury's Temporary Guarantee Program for Money Market Funds which provides a guarantee of \$1.00 a share to participating money market fund shareholders. Approximately 40 percent of our then \$250 million position was paid on November 14, 2008, and the remainder is scheduled to be paid in January 2009.

As of June 30, 2008, STIF owned \$300 million of Citi-sponsored structured investment vehicles (SIVs) named Beta, Dorada and Five Finance. The notes held Standard & Poor's ratings of AAA, and \$150 million of the notes matured during September and October 2008. On November 19, 2008, Citibank N.A. purchased the assets of the SIVs and agreed to ensure the repayment of the senior debt. On November 21, 2008 Standard & Poor's lowered the credit ratings on the \$150 million of securities remaining in the portfolio to AA from AAA, which reflected the credit rating of Citibank N.A.

On July 22, 2008, Standard & Poor's cut its long-term credit rating on our \$450 million Wachovia investment to AA- from AA. Wachovia is currently on watch for an upgrade as a result of pending acquisition by Wells Fargo.

On October 6, 2008, Standard & Poor's cut its long-term credit rating on our \$450 million RBS Citizens investment to A+ from AA-. As a result of this downgrade, STIF received an irrevocable stand-by letter of credit provided by the Federal Home Loan Bank of Boston guaranteeing both principal and interest.

On December 19, 2008, Standard & Poor's cut its long-term credit rating on following securities: JP Morgan to AA-, Bank of America to A+, Goldman Sachs to A, Royal Bank of Scotland to A and Wells Fargo to AA. In addition, the short-term credit rating for our Bank of America Repurchase Agreement has been lowered to A-1 from A-1+.

Investment

Section



2008 short-term investment fund

Fund Facts at June 30, 2008

Investment Strategy/Goals: To provide a safe, liquid and effective investment vehicle for the operating cash of the State, municipalities and other Connecticut political subdivisions.

Performance Objective: As high a level of current income as is consistent with, first, the safety of principal and, second, the provision of liquidity.

Benchmarks: iMoneyNet's First Tier Institutional-only Rated Money Fund Report AveragesTM – Index (MFR Index), Federal Reserve Three-Month CD, Federal Reserve Three-Month T-Bill.

Date of Inception: 1972

Total Net Assets: \$5.0 billion

Internally Managed

External Management Fees: None

Expense Ratio: Less than 3 basis points (includes internal management and personnel salaries)

Description of the Fund

The Treasurer's Short-Term Investment Fund ("STIF" or the "Fund") is an AAAM rated investment pool of high-quality, short-term money market instruments managed by the Treasurer's Cash Management Division. Created in 1972, it 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. (See figure 1-1.) STIF's objective is to provide as high a level of current income as is consistent with, first, the safety of principal and, second, the provision of liquidity to meet participants' daily cash flow requirements. During the 2008 fiscal year, STIF's portfolio averaged \$5.1 billion.

STIF employs a top-down approach to developing its investment strategy for the management of its assets. Starting with the objectives of the Fund, STIF considers constraints outlined in its investment policy, which include among other parameters: liquidity management, limitations on the portfolio's weighted average maturity (see figure 1-2), and permissible investment types. Next, an asset allocation is developed to identify securities that are expected to perform well in the current market environment. Over the long-term, STIF continually analyzes expectations of future interest rate movements and changes in the shape of the yield curve to ensure the most prudent and effective short-term money management for its clients. Ongoing credit analysis enables STIF to enhance its yield by identifying high-quality credits in undervalued sectors of the economy.

STIF pays interest monthly based on the daily earnings of the Fund less Fund expenses and an allocation to the Fund's Designated Surplus Reserve. The daily reserve allocations equal one-tenth of one percent of the Fund's daily balances divided by the number of days in the year, until the reserve totals one percent of the Fund's daily balance. The reserve on June 30, 2008, totaled \$53.1 million prior to reflecting a December 5, 2008 transaction that recognized a \$24 million reduction in the value of our Cheyne (Gryphon) securities. (See note 9 on page 21.)

To help the Fund and its investors evaluate performance, STIF compares its returns to three benchmarks. The first is iMoneyNet's First Tier, Institutional-only Rated Money Fund Report AveragesTM – Index ("MFR Index"). This index represents an average of institutional money market mutual funds rated AAAM that invest primarily in first-tier (securities rated A-1, P-1) taxable securities. While STIF's investment policy allows for somewhat greater flexibility than these SEC-registered funds, the MFR Index is the most appropriate benchmark against which to judge STIF's performance. During the past year, STIF's actual investment strategy has been considerably more restrictive than most private money funds and its own policy would permit.

STIF's yields are also compared to the average Federal Reserve three-month T-Bill rate and the Federal Reserve three-month CD rate. The former benchmark is used to measure STIF's effectiveness in achieving yields in excess of a "risk-free" investment. The latter is shown for the benefit of STIF investors, many of whom invest in bank certificates of deposit. In viewing these benchmarks, it is important to keep in mind that yields of the CD index will exceed those of the T-Bill index due to a CD's slightly higher risk profile and comparatively lower liquidity. Additionally, it is important to note that the 90-day benchmarks exceed STIF's shorter average

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

maturity. In order to maintain its AAAM rating, the STIF cannot exceed a 60-day weighted average maturity (WAM) limit. Furthermore, these benchmarks are "unmanaged" and are not affected by management fees or operating expenses. (See figure 1-3.)

Among the Fund's several achievements during the 2008 fiscal year was the reaffirmation and continuation of its AAAM rating by Standard & Poor's. In S&P's view, "a fund rated 'AAAM' has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market and/or liquidity risks."

Portfolio Characteristics

During the summer and fall of 2007, STIF took a series of cautious steps to alter its portfolio in response to the disruptive markets, including reducing exposure to asset-backed commercial paper, increasing exposure to U.S. government and agency securities, reducing maturities, and increasing liquidity. We continued our more cautious investment strategy through the winter and spring of 2008.

During the fiscal year, STIF's weighted average maturity fell from 50 days to 19 days, and by fiscal year end the portfolio held less than one percent of asset-backed commercial paper (and zero percent by July 8, 2008). U.S. government agency securities grew to 18 percent during the year and U.S. government money market funds grew to nine percent during the fiscal year. One day liquidity made up of overnight investments and investments available on a same-day basis, totaled 67 percent of assets on June 30, 2008.

The Fund ended the year with a 96 percent concentration in investments with short-term ratings of A-1+ or long-term ratings of AAA (the highest ratings of Standard & Poor's) or overnight repurchase agreements. Seventy-eight percent of the Fund was invested in securities with maturities, or interest rate reset dates for adjustable rate securities, of less than 30 days, versus the 41 percent at the previous year-end. The Fund's three largest security weightings included deposit instruments (41.7 percent), federal agency securities (18.3 percent), and overnight repurchase agreements (16.3 percent). (See figure 1-5.)

Market Review

The fiscal year was marked by tumultuous financial markets. At the end of June 2007, the Federal Reserve's Open Market Committee ("FOMC") elected to keep the target Fed Funds rate at 5.25 percent, expecting the economy to continue its modest expansion, despite the slowing housing sector. By mid August, however, fallout from the sub-prime lending problems began to have broad and deep impacts on the financial markets. By the end of the fiscal year, the Fed had used both the traditional tools of monetary policy and non traditional tools, in the form of many different lending and liquidity facilities, to combat what had become a widespread credit market disruption. During the fiscal year, the FOMC cut the Fed Funds target rate seven different times totaling 325 basis points, bringing the Fed Funds target rate to 2.00 percent by April 30, 2008.

The markets became extremely disjointed beginning in the summer of 2007. The sub-prime induced credit crunch caused unprecedented turmoil in the money markets. What began as a sub-prime problem ultimately infected virtually all areas of the fixed income markets as the commercial paper market contracted and rates correspondingly rose, bond insurers were downgraded, and banks came under pressure to raise capital as their bad loans and asset write-downs mounted. In March 2008, Bear Stearns was rescued by JPMorgan Chase in a deal put together and partially supported by the Federal Reserve.

The lack of lending between banks became apparent in the behavior of LIBOR (London Inter Bank Offering Rate) interest rates. Beginning in early August, the spread between three month Treasury Bills and three month LIBOR levels shot to over 240 basis points from about 40 basis points in late July. This Treasury vs. Eurodollar (TED) spread averaged approximately 122 basis points during the fiscal year compared to an average of 37 basis points during the prior fiscal year. All risk premiums followed this pattern as equity prices fell and credit spreads widened dramatically across the board.

During fiscal year 2009, economic problems have widened and deepened. Equity markets have fallen precipitously, with the S&P 500 down 36.5 percent from July 1, 2008 to December 1, 2008. Labor markets have experienced higher unemployment, up 1.2 percentage points, to 6.7 percent, since July 1, and non-farm payrolls

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have lost 1,450,000 jobs during that period. The economy as a whole has contracted, with growth for the first and second quarters expected to hit -0.5 percent and -3.0 percent respectively. Throughout this period, the Fed's FOMC has continued to lower interest rates, with the Fed Funds target rate cut to 1.0 percent, on October 29, 2008. On December 16, 2008, citing the fact that "the outlook for economic activity has weakened further, labor market conditions have deteriorated and the available data indicate that consumer spending, business investment, and industrial production have declined" the FOMC established a range for the Fed Funds target rate of 0.00 to 0.25 percent.

During the summer, the U.S. Treasury took control of two government-sponsored mortgage agencies, Fannie Mae and Freddie Mac, and difficulties and some outright failures of savings and loan institutions, commercial banks and investment banks have resulted in consolidations and restructurings. In September, the bankruptcy of Lehman Brothers led to a new level of market disruptions, with a commercial money market mutual fund "breaking the buck," and credit markets nearly freezing. The U. S. Congress, FDIC, Federal Reserve, SEC and U.S. Treasury took a wide range of actions to attempt to calm markets, increase lending, and stabilize financial organizations. Despite these most significant efforts, at this writing, the financial markets and the wider economy are still experiencing significant dislocations.

Performance Summary

For the one-year period ending June 30, 2008, STIF reported an annual total return of 4.13 percent, net of operating expenses and \$1.9 million in allocations to Fund reserves. Annual total return measures the total investment income a participant would earn with monthly compounding at the Fund's monthly net earned rate during the year. This figure exceeded that achieved by its benchmark, the MFR Index, which equaled 4.07 percent, by six basis points. Additionally, the performance was competitive compared to three-month T-Bills, which yielded 2.91 percent and three-month CDs, which yielded 4.16 percent. While the STIF slightly underperformed the 90-day CD benchmark, it is important to note that STIF offers complete same-day liquidity to its investors, whereas investments in 90-day CDs restrict access to cash for a three month period. STIF's relative performance was also directly affected by the fund's more cautious investment strategy for most of the fiscal year that, while prudent under difficult market conditions, resulted in reductions in STIF's yield.

The principal reasons for STIF's strong performance despite its more cautious strategy for most of the year was its low overall expenses which give the Fund a risk-free advantage over other money funds.

Over the long-term, STIF has performed exceptionally well. For the trailing three-, five-, seven-, and ten-year periods, STIF's compounded annual total return was 4.68 percent, 3.49 percent, 3.10 percent, and 3.91 percent, net of operating expenses and contributions to reserves, exceeding returns of each of its benchmarks for all time periods. Viewed on a dollar-for-dollar basis, had one invested \$10 million in STIF ten years ago, that investment would have been worth \$14.7 million at June 30, 2008, versus \$14.2 million for a hypothetical investment in the MFR Index. (See figure 1-6.) During the past 10 years, STIF has earned \$151.4 million above its benchmark while adding \$26.3 million to its reserves.

Our portfolio was faced with challenges during the very turbulent 2008 fiscal year, as was the overall credit market. One security, Cheyne Finance, was placed under the control of receivers in September 2007 and stopped payments to investors in October 2007. In April 2008, STIF received a cash distribution of \$18.7 million, reducing our total exposure to from \$100 million to \$81.3 million, or 1.6 percent of STIF's approximately \$5 billion in assets. (Cash distributions over the past nine months have totaled \$28.5 million.)

In July 2008, the notes were restructured and we converted our Cheyne position into unrated Gryphon Funding notes that give STIF a pro rata share, along with other senior creditors, of ownership of the portfolio of securities that was underlying the Cheyne notes. This report values the Cheyne (now Gryphon) notes at a level that represents a recovery value of approximately 76 percent of the original \$100 million investment.

We have transferred \$24 million from STIF's reserves to cover the reduction in value without (a) affecting STIF's \$1.00 per share net asset value or (b) any loss of principal to any of our investors. As of December 15, 2008, our remaining reserves total \$31.4 million, or 0.8% of fund assets. The reserves are being rebuilt daily at the annual rate of 10 basis points until they reach one percent of total assets.

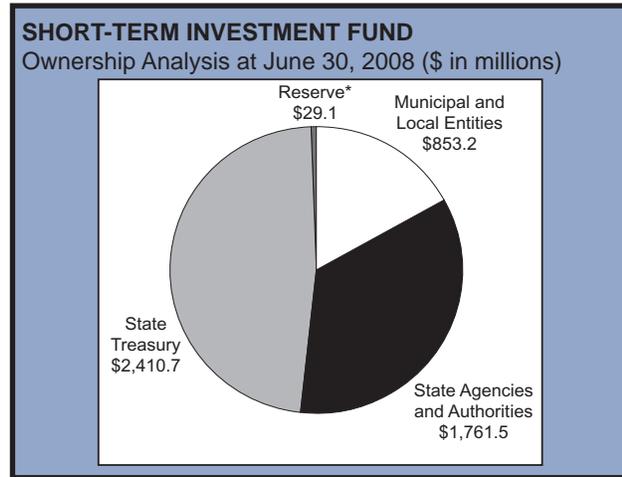
Risk Profile

STIF is considered extremely low risk for several reasons. First, its portfolio is comprised of high-quality, highly liquid securities, which insulate the Fund from default and liquidity risk. (See figure 1-4.) Second, its relatively short average maturity reduces the Fund's price sensitivity to changes in market interest rates. Third, STIF has a strong degree of asset diversification by security type and issuer, as required by its investment policy, strengthening its overall risk profile. And finally, STIF's reserve is available to protect against security defaults or the erosion of security values due to dramatic and unforeseen market changes, as discussed above regarding our Cheyne (Gryphon) notes. As the chosen short-term investment vehicle for the operating cash of the State, STIF has the ultimate confidence of the State government.

While STIF is managed diligently to protect against losses from credit and market changes, the Fund is not insured or guaranteed by any government. Therefore, the maintenance of capital cannot be fully assured.

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

Figure 1-1



* The reserve on June 30, 2008, totaled \$53.1 million prior to reflecting a December 5, 2008 transaction that transferred a \$24 million to cover a reduction in the value of our Cheyenne (Gryphon) securities.

Figure 1-2

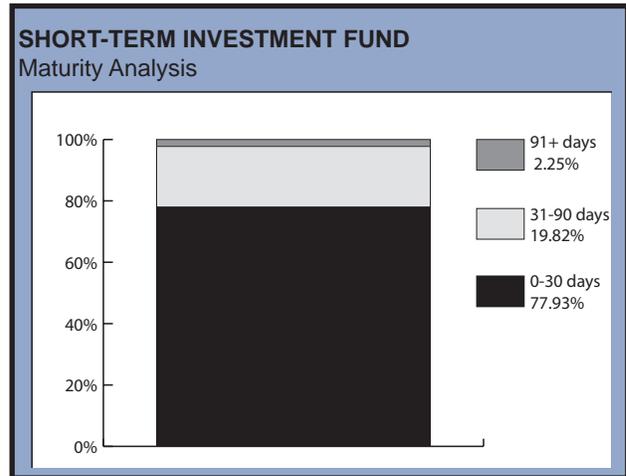


Figure 1-3

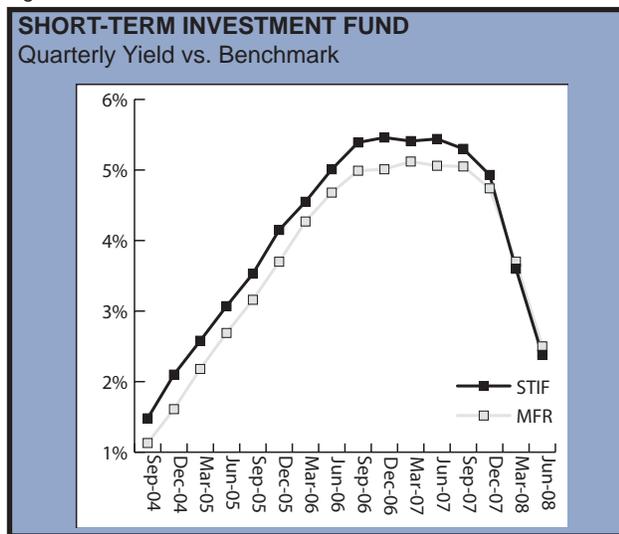


Figure 1-5

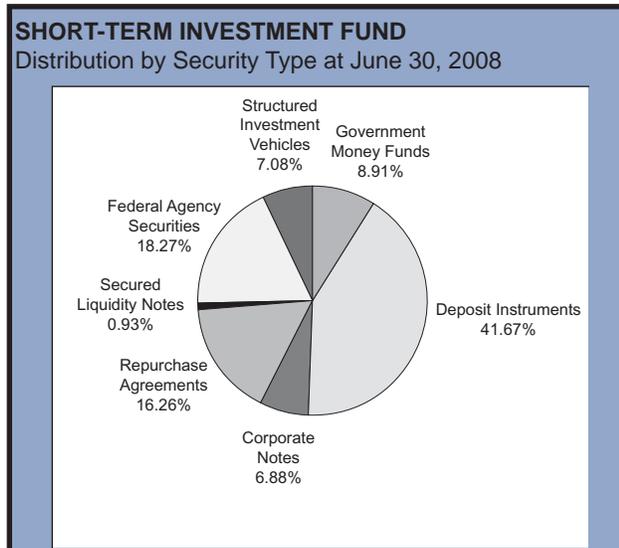


Figure 1-4

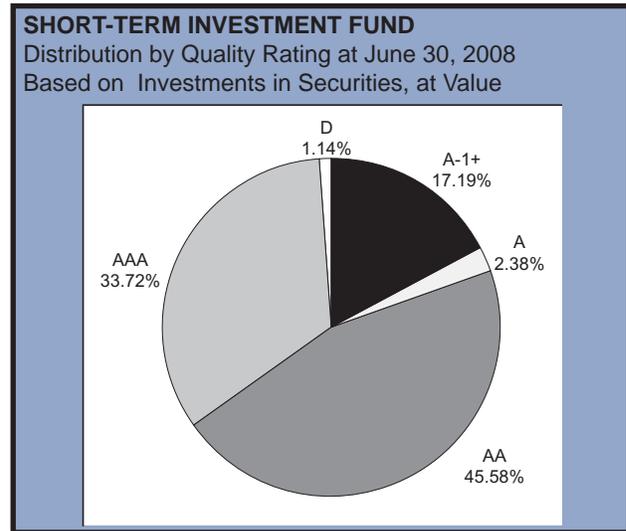


Figure 1-6

SHORT-TERM INVESTMENT FUND
Period ending June 30, 2008

	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs
Compounded Annual Total Return (%)					
STIF	4.13	4.68	3.49	3.10	3.91
MFR Index*	4.07	4.40	3.16	2.75	3.55
Fed. Three-Month T-Bill	2.91	4.02	3.05	2.67	3.39
Fed. Three-Month CD	4.16	4.64	3.49	3.01	3.78
Cumulative Total Return (%)					
STIF	4.13	14.71	18.73	23.83	46.77
MFR Index*	4.07	13.80	16.85	20.88	41.75
Fed. Three-Month T-Bill	2.91	12.55	16.19	20.28	39.53
Fed. Three-Month CD	4.16	14.59	18.73	23.09	44.90

*Represents iMoneyNet's First Tier Institutional-only Rated Money Fund Report Averages™. (MFR) Index.

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

LIST OF INVESTMENTS AT JUNE 30, 2008

Par Value	Security (Coupon, Maturity or Reset Date)	Yield %	Amortized Cost	Fair Value	Asset ID	Quality Rating
SECURED LIQUIDITY NOTES (0.93% of total investments)						
\$ 47,018,645	LAKESIDE FUNDING 2.75, 7/8/08	2.75	\$ 47,018,645	\$ 47,018,645	51215MBZ7	A-1+
\$ 47,018,645			\$ 47,018,645	\$ 47,018,645		
FEDERAL AGENCY SECURITIES (18.27% OF TOTAL INVESTMENTS)						
\$ 100,000,000	FANNIE MAE 2.08, 7/16/08	2.08	\$ 99,913,333	\$ 99,913,333	313588ZL2	AAA
100,000,000	FANNIE MAE 2.08, 8/1/08	2.08	99,820,889	99,820,889	313588A47	AAA
50,000,000	FANNIE MAE 2.41, 9/3/08	2.41	49,785,778	49,790,000	313588E50	AAA
50,000,000	FANNIE MAE 2.46, 9/17/08	2.46	49,733,500	49,746,500	313588G33	AAA
24,800,000	FFC-FLT 2.74, 10/30/08	2.64	24,800,000	24,800,595	31331XXF4	AAA
25,000,000	FFC FLT 2.33, 3/24/09	2.41	25,006,222	24,983,175	31331X3C4	AAA
50,000,000	FHLB 2.405, 9/5/08	2.34	49,779,542	49,785,500	313384E75	AAA
25,000,000	FHLB 2.34, 9/5/08	2.34	24,892,750	24,892,750	313384E75	AAA
50,000,000	FHLB 2.35, 9/16/08	2.34	49,748,681	49,749,750	313384G29	AAA
25,000,000	FHLB-FLT 2.66, 9/17/08	2.70	25,000,000	25,000,925	3133XK7D1	AAA
25,000,000	FHLB-FLT 2.66, 9/17/08	2.70	24,999,948	25,000,925	3133XK7D1	AAA
100,000,000	FREDDIE MAC 2.07, 7/21/08	2.07	99,885,000	99,885,000	313396ZR7	AAA
100,000,000	FREDDIE MAC 2.13, 8/18/08	2.14	99,716,000	99,716,000	313396C50	AAA
100,000,000	FREDDIE MAC 2.22, 9/2/08	2.22	99,611,500	99,590,500	313396E41	AAA
50,000,000	FREDDIE MAC 2.37, 9/15/08	2.38	49,749,833	49,753,000	313396F99	AAA
50,000,000	FREDDIE MAC 2.45, 9/22/08	2.45	49,717,569	49,730,250	313396G80	AAA
\$ 924,800,000			\$ 922,160,545	\$ 922,159,092		
DEPOSIT INSTRUMENTS (41.67% OF TOTAL INVESTMENTS)						
\$ 3,500,000	SUNTRUST BANK 2.80, 6/2/09	2.94	\$ 3,503,081	\$ 3,495,275	86787ALA1	AA-
450,000,000	JP MORGAN 2.23, 8/6/08	2.23	450,000,000	450,000,000	N/A	AA
50,000,000	RBS CITIZENS NA 2.78, 2/20/09	2.78	50,000,000	50,000,000	N/A	AA- *
100,000,000	RBS CITIZENS NA 2.34, 3/26/09	2.34	100,000,000	100,000,000	N/A	AA- *
100,000,000	RBS CITIZENS NA 2.34, 3/26/09	2.34	100,000,000	100,000,000	N/A	AA- *
100,000,000	RBS CITIZENS NA 2.97, 6/1/09	2.97	100,000,000	100,000,000	N/A	AA- *
100,000,000	RBS CITIZENS NA 2.84, 6/1/09	2.84	100,000,000	100,000,000	N/A	AA- *
50,000,000	SOCIETE GENERALE 2.70, 9/3/08	2.70	50,000,000	50,000,000	8336P2J25	AA-
50,000,000	SOCIETE GENERALE 2.80, 9/18/08	2.80	50,000,000	50,000,000	8336P2KN7	AA-
250,000,000	SOCIETE GENERALE 2.97, 4/30/09	2.97	250,000,000	250,000,000	8336P2G51	AA-
100,000,000	TORONTO-DOMINION 2.69, 3/30/09	2.69	100,000,000	100,000,000	N/A	AA-
100,000,000	TORONTO-DOMINION 2.69, 3/30/09	2.69	100,000,000	100,000,000	N/A	AA-
100,000,000	TORONTO-DOMINION 2.69, 3/30/09	2.69	100,000,000	100,000,000	N/A	AA-
100,000,000	TORONTO-DOMINION 3.00, 6/12/09	3.00	100,000,000	100,000,000	N/A	AA-
450,000,000	WACHOVIA 2.20, 8/5/08	2.20	450,000,000	450,000,000	N/A	AA
\$2,103,500,000			\$ 2,103,503,081	\$ 2,103,495,275		
STRUCTURED INVESTMENT VEHICLES (7.08% OF TOTAL INVESTMENTS)						
\$ 50,000,000	BETA FINANCE 2.67, 9/9/08	4.54	\$ 49,998,161	\$ 49,830,550	08658AMK8	AAA **
50,000,000	BETA FINANCE 2.71, 7/6/09	4.85	49,987,912	48,982,350	08658AQB4	AAA **
40,693,525	CHEYNE FINANCE 0.00, 10/15/08	0.00	28,682,989	28,892,403	16705ECU5	D ***
40,649,396	CHEYNE FINANCE 0.00, 2/25/09	0.00	28,648,895	28,861,071	16705EDZ3	D ***
50,000,000	DORADA FINANCE 2.70, 10/10/08	4.64	49,997,309	49,752,850	25810EMN3	AAA **
50,000,000	DORADA FINANCE 2.10, 2/11/09	3.96	49,994,914	49,446,500	25810EMZ6	AAA **
50,000,000	FIVE FINANCE 2.79, 9/29/08	4.54	49,997,655	49,791,850	33828WCQ1	AAA **
50,000,000	FIVE FINANCE 2.66, 6/9/09	4.54	49,988,821	49,186,650	33828WEB2	AAA **
\$ 381,342,921			\$ 357,296,656	\$ 354,744,224		
CORPORATE NOTES (6.88% OF TOTAL INVESTMENTS)						
\$ 20,600,000	BANK AMERICA 2.92, 3/24/09	3.30	\$ 20,596,984	\$ 20,543,226	060505CC6	AA
5,000,000	BANK AMERICA 2.90, 11/6/09	3.62	4,988,346	4,953,580	060505CT9	AA
2,595,000	BANK AMERICA 2.97, 2/11/09	3.46	2,598,695	2,588,188	06050MCC9	AA
5,195,000	GE CAPITAL 2.88, 6/15/09	2.87	5,199,499	5,195,795	36962GR22	AAA
2,450,000	GOLDMAN SACHS 2.81, 11/10/08	3.50	2,450,593	2,444,414	38141EKJ7	AA-
30,000,000	GOLDMAN SACHS 2.84, 12/23/08	3.58	30,000,000	29,895,690	38141EKX6	AA-
6,500,000	GOLDMAN SACHS 2.85, 3/30/09	3.68	6,501,331	6,460,227	38141ELD9	AA-
11,590,000	GOLDMAN SACHS 3.25, 7/23/09	3.76	11,621,491	11,514,340	38141EJQ3	AA-
53,500,000	HSBC FINANCE 2.90, 6/19/09	5.01	53,529,555	52,438,132	40429JAR8	AA-
50,000,000	MBIA GLOBAL FUNDING 2.48, 2/26/09	22.12	50,000,000	44,125,700	55266LFM3	AA

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

LIST OF INVESTMENTS AT JUNE 30, 2008 (Continued)

Par Value	Security (Coupon, Maturity or Reset Date)	Yield %	Amortized Cost	Fair Value	Asset ID	Quality Rating
20,000,000	MERRILL LYNCH 2.96, 10/23/08	4.81	20,001,175	19,881,860	59018YYN5	A
9,900,000	MERRILL LYNCH 3.00, 10/27/08	4.85	9,902,137	9,839,778	59018YWF4	A
5,000,000	MERRILL LYNCH 3.00, 10/27/08	4.85	5,001,079	4,969,585	59018YWF4	A
1,500,000	MERRILL LYNCH 3.00, 10/27/08	4.85	1,500,299	1,490,876	59018YWF4	A
15,500,000	MERRILL LYNCH 2.99, 1/30/09	5.64	15,505,999	15,260,386	59018YWT4	A
8,000,000	MERRILL LYNCH 2.99, 1/30/09	5.64	8,002,871	7,876,328	59018YWT4	A
50,000,000	MERRILL LYNCH 2.16, 5/8/09	4.75	50,000,000	48,930,450	59018YD32	A
10,000,000	MERRILL LYNCH 2.57, 6/26/09	5.57	10,004,710	9,713,480	59018YXS5	A
25,000,000	NEW YORK LIFE 2.50, 3/30/09	2.50	25,000,000	24,996,725	649486AE7	AAA
10,000,000	ROYAL BANK OF SCOTLAND 2.51, 9/19/08	2.82	10,000,000	9,993,320	78010JAB8	AA
5,000,000	WELLS FARGO 2.88, 9/15/09	3.17	4,998,872	4,983,410	949746JD4	AA+
\$ 347,330,000			\$ 347,403,636	\$ 338,095,490		
MONEY MARKET FUNDS (8.91% OF TOTAL INVESTMENTS)						
\$ 100,000,000	GS GOVT FUND 2.41, 7/1/08	2.41	\$ 100,000,000	\$ 100,000,000	N/A	AAAM
100,000,000	GS GOVT FUND 2.41, 7/1/08	2.41	100,000,000	100,000,000	N/A	AAAM
856	LIQUIDITY MGMT SYSTEM 1.50, 7/1/08		856	856	N/A	A-1+
25,000,000	ML GOVT FUND 2.23, 7/1/08	2.23	25,000,000	25,000,000	N/A	AAAM
100,000,000	RESERVE - US GOVT 2.25, 7/1/08	2.25	100,000,000	100,000,000	N/A	AAAM
100,000,000	RESERVE - US GOVT 2.25, 7/1/08	2.25	100,000,000	100,000,000	N/A	AAAM
25,000,000	RESERVE - US GOVT 2.25, 7/1/08	2.25	25,000,000	25,000,000	N/A	AAAM
\$ 450,000,856			\$ 450,000,856	\$ 450,000,856		
REPURCHASE AGREEMENTS (16.26% OF TOTAL INVESTMENTS)						
\$ 820,912,000	BANK OF AMERICA 2.35, 7/1/08		\$ 820,912,000	\$ 820,912,000	N/A	A-1+
\$ 820,912,000			\$ 820,912,000	\$ 820,912,000		
\$5,074,904,423	TOTAL INVESTMENT IN SECURITIES		\$ 5,048,295,420	\$ 5,036,425,583		

* As of October 6, 2008, Standard & Poor's Ratings Services cut its long term credit ratings on our \$450 million RBS Citizens investment to A+ from AA-. As a result of this downgrade, STIF received an irrevocable stand-by letter of credit provided by the Federal Home Loan Bank of Boston guaranteeing both principal and interest.

** As of November 21, 2008, Standard & Poors lowered the credit ratings on our Citi sponsored structured investment vehicles (SIV's named Beta, Dorada and Five Finance) securities to AA from AAA.

*** The Cheyne Finance notes were restructured effective July 23, 2008. We converted our Cheyne position to unrated Gryphon Funding pass-through notes which gives STIF a pro rata share, with other senior creditors, of ownership of the portfolio of securities underlying the Cheyne notes. Cash distributions through December 2008 have totaled \$28.5 million. We have transferred \$24 million of the reserves to cover the value adjustment.

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

SCHEDULE OF MANAGEMENT FEES AT JUNE 30, 2008

<u>Category</u>	<u>Amount</u>
Internal Management Fees	\$1,148,491
External Management Fees	<u>131,351</u>
Total:	<u>\$1,279,842</u>

Internal management fees include payroll, lease service, subscriptions, supplies, telephone and other. External professional fees include Independent Accountant fees and custodian and investor services.

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

SCHEDULE OF PARTICIPANTS BY CONCENTRATION AT JUNE 30, 2008

Type	Number of Accounts	Value
Municipal and Local Entities	637	\$ 853,181,810
State Treasury	39	2,410,739,872
State Agencies and Authorities	<u>418</u>	<u>1,761,456,188</u>
Total	<u>1,094</u>	<u>\$5,025,377,870</u>

Participant Net Asset Value, Offering Price and Redemption Price per
Share (\$5,025,377,870 in Net Assets divided by 5,025,377,870 shares) \$ 1.00

Note: Does not include designated surplus reserve.

Investment Policy

As adopted August 21, 1996 and revised June 16, 2008.

A. Background

The Treasurer's Short-Term Investment Fund (STIF) is an investment pool of high-quality, short-term money market instruments for state and local governments. Operating since 1972 in a manner similar to a money market mutual fund, STIF's purpose is to provide a safe, liquid and effective investment vehicle for the operating cash of the State Treasury, state agencies and authorities, municipalities, and other political subdivisions of the state.

All State, local and political subdivisions of the State are authorized to invest in STIF by (CGS) 3-27a and 3-27b.

B. Purpose

The purpose of this document is to specify the policies and guidelines that provide for the systematic management of STIF and the prudent and productive investment of funds.

C. Investment Objectives

STIF seeks as high a level of current income as is consistent with, first, the safety of principal invested by the State, municipalities and others, and, second, the provision of liquidity to meet participants' daily cash flow requirements.

D. Safety of Principal

Safety of principal, STIF's primary objective, shall be pursued in a number of ways.

1. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio by protecting against credit risks (from security defaults) and the erosion of market prices (from rising interest rates).
2. The Fund's investments shall be made in conformance with prudent guidelines for allowable instruments, credit quality and maturities. See Section H.
3. STIF shall maintain adequate diversification of instruments, issuers, industries and maturities to protect against significant losses from credit risks and market changes. See Section H.
4. All securities shall be held by a third-party custodian.
5. All transactions shall be handled on the basis of delivery vs. payment to a custodian bank.
6. All repurchase agreements shall be fully collateralized, with a custodian bank receiving delivery of the collateral.
7. Reverse repurchase agreements may be used only to meet temporary liquidity requirements of the Fund and may not exceed five percent of total Fund assets. See Section H.
8. STIF shall maintain a designated surplus reserve to provide an added layer of security. For the period June through November 1996 a pro-rated allocation to the reserve will be paid from investment returns that will equal, on an annualized basis, one-tenth of one percent of the fund's total investments until the reserve equals one percent of investments. Effective December 1, 1996, daily allocations to the designated surplus reserve will be paid from investment returns and will equal, on an annualized basis, one-tenth of one percent of the fund's investments until the reserve equals one percent of investments. If net losses significant to the aggregate portfolio are realized, they shall be charged against the designated surplus reserve, as discussed in Section Q. This reserve has never been drawn upon in STIF's 24-year history.

While STIF — which consists predominantly of funds for which the Treasurer is sole trustee — is managed diligently to protect against losses from credit and market changes, and though deposits are backed by high-quality and highly-liquid short-term securities, the Fund is not insured or guaranteed by any government and the maintenance of capital cannot be fully assured.

E. Liquidity

The portfolio shall be structured through sufficient investments in overnight and highly-marketable securities to allow complete liquidity for participants. In addition, reverse repurchase agreements totaling up to five percent of Fund assets may be used to meet temporary liquidity requirements.

Participants have full and quick access to all of their funds. Participants may make same-day (up to 10:30 a.m.) deposits and withdrawals of any size. Withdrawals generally are sent via Fed wire, thus funds are available for use on the day of withdrawal.

In addition, deposits and withdrawals may be made through the ACH system on a next-day basis, deposits may be made by check through the mail, and withdrawals may be made by check. No transaction fees are charged on deposits or withdrawals by wire or ACH. Withdrawals by check are charged a fee, as specified in the participant manual.

F. Yield

STIF's investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account investment risk constraints and the liquidity requirements of the Fund.

The portfolio shall be managed with the objective of exceeding the average of three-month U.S. Treasury Bill rates for the equivalent period. This index is considered a benchmark for near-riskless investment transactions and, therefore, comprises a minimum standard for the portfolio's rate of return. The investment program shall seek to augment returns above this threshold, consistent with stated risk limitations and prudent investment principles.

While STIF shall not make investments for the purpose of trading or speculating as the dominant criterion, STIF shall seek to enhance total portfolio return through active portfolio management. The prohibition on speculative investments precludes pursuit of gain or profit through unusual risk. Trading in response to changes in market value or market direction, however, is warranted under active portfolio management.

G. Prudence

Investments shall be made with the care, skill, prudence, and diligence — under circumstances then prevailing — that prudent persons acting in like capacities and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by STIF's investment officials shall be the "prudent expert" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion in writing and appropriate action is taken to control adverse developments.

H. Investment Guidelines

All investments must be made in instruments authorized by CGS 3-27c - 3-27e. In addition, the Treasurer has adopted the investment guidelines that follow. Unless otherwise indicated, references to credit ratings are to those of Standard & Poor's.

1. STIF may invest in the following securities:
 - a. U.S. government and federal agency securities.
 - b. Certificates of deposit of commercial banks in the United States whose short-term debt is rated at least A-1 and TBW-1 (by Thomson Bank Watch) and whose long-term debt is rated at least A- and C (by Thomson Bank Watch).
 - c. Certificates of deposit of U.S. branches of foreign banks with short-term debt ratings of at least A-1 and TBW-1 and long-term debt ratings of at least A and B/C (by Thomson Bank Watch).

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

- d. Bankers' acceptances of those banks meeting the criteria in b. and c. above.
 - e. Fully-collateralized repurchase agreements with primary dealers of the Federal Reserve with short-term debt ratings of at least A-1, or qualified domestic commercial banks meeting the criteria in b. above, with possession of collateral by a custodian bank.
 - f. Commercial paper of companies that have short-term debt rated at least A-1 and P-1 (by Moody's) and long-term debt rated at least AA- and Aa3 (by Moody's).
 - g. Corporate or asset-backed securities rated at least A-1/P-1 and AA-/Aa3.
 - h. Asset-backed securities with maturities of under one year rated at least A-1/P-1.
 - i. Money market mutual funds or similar investment pools, comprised of securities permitted under this investment policy and managed to maintain a constant share value, rated AAAM.
 - j. A line of credit of up to \$100 million with the Connecticut Student Loan Foundation. Any resulting loans shall be fully collateralized (at 102 percent) by student loans with interest and principal 98 percent federally guaranteed.
 - k. The portfolio currently includes securities issued by the State of Israel, which mature in less than six years, and which, in the aggregate, total less than .5 percent of the portfolio value. These notes' interest rates are reset semi-annually at the prime rate minus 50 basis points. These securities, as currently structured, will not be purchased in the future.
 - l. Notwithstanding the approved investments enumerated above, STIF may hold securities or other assets received as a result of a restructuring of securities that were, when originally purchased, among the list of approved investments set forth herein, following consultation with an outside investment advisor. The Treasurer will notify investors of such situations within two (2) business days of the receipt of such securities or assets.
2. Reverse repurchase agreements, in the aggregate, may not exceed five percent of net assets at the time of execution. While any reverse repurchase agreement is outstanding, new investments must match the maturity of the shortest-term outstanding reverse repurchase agreement. Reverse repurchase agreements are to be used only to meet temporary liquidity requirements of the Fund.
 3. No investments may be made in "derivative" securities such as futures, swaps, options, interest-only and principal-only mortgage-backed securities, inverse floaters, CMT floaters, leveraged floaters, dual index floaters, COFI floaters, and range floaters. These types of securities can experience high price volatility with changing market conditions, and their market values may not return to par even at the time of an interest rate adjustment.

Investments may be made in adjustable rate securities whose interest rates move in the same direction and in the same amount as standard short-term money market interest rate benchmarks, such as Fed Funds, LIBOR, Treasury bills, one-month CDs, one-month commercial paper and the prime rate, and conform with STIF's other credit and maturity standards. Interest rate reset periods may not exceed six months. The values of these securities tend to return to par upon the scheduled adjustment of interest rates. Some parties in the financial services industry consider these types of adjustable rate securities to be derivatives, others do not.

U.S. Treasury Separate Trading of Registered Interest and Principal Securities ("STRIPS") are not considered derivatives and may be purchased. These instruments are subject to the same interest rate risks as U.S. Treasury securities of the same duration. STRIPS are fundamentally different from mortgage-backed and other interest-only or principal-only securities that are subject to unscheduled prepayments of principal.

4. All investments must be made in U.S. dollar-denominated securities.
5. The dollar-weighted average portfolio maturity (including interest rate reset periods) may not exceed 90 days. Individual maturities may not exceed five years.

6. STIF shall diversify its investments to avoid incurring unreasonable risks inherent in overinvesting in specific instruments, industry segments, individual issuers or maturities. Diversification strategies shall include:
- a. At the time of purchase, no more than five percent of the overall portfolio may be invested in an individual security, other than overnight or two-business-day repurchase agreements and U.S. government and agency securities.
 - b. At the time of purchase, no more than 10 percent of the overall portfolio may be invested in securities of a single bank or corporation, other than overnight or two-business-day repurchase agreements and U.S. government and agency securities.
 - c. There is no limitation on the percentage of assets that may be invested in securities of the United States government, its agencies or instrumentalities, or in overnight or two-business-day repurchase agreements.
 - d. At the time of purchase, no more than 25 percent of the overall portfolio may be invested in any industry other than the financial services industry.
 - e. At the time of purchase, no more than 50 percent of the overall portfolio may be invested in the combined total of commercial paper and non-asset-backed corporate notes.
 - f. At the time of purchase, no more than 20 percent of the overall portfolio may be invested in floating rate securities with final maturities in excess of two years.
 - g. At the time of purchase, no more than five percent of the overall portfolio may be invested in an individual money market mutual fund or similar investment pool.
 - h. At the time of purchase, no more than 10 percent of the overall portfolio may be invested in money market mutual funds and similar investment pools.
 - i. At the time of purchase, investments in securities that are not readily marketable, other than securities that mature within seven days, may not exceed 10 percent of the fund's overall portfolio.
 - j. At least 75 percent of the overall portfolio shall be invested in securities rated A-1+ or in overnight repurchase agreements with dealers or banks rated A-1.
7. The Treasurer intends to operate STIF in such a manner as to maintain its AAAM credit rating from Standard & Poor's, or a similar rating from another nationally-recognized credit rating service recognized by the State Banking Commissioner.
8. Investment decisions shall be based on the relative and varying yields and risks of individual securities and the Fund's liquidity requirements.

I. Interest Payments

Until December 1, 1996:

STIF pays interest quarterly based on monthly guaranteed rates that are set on or before the first day of each month by the Treasury based on STIF's portfolio and market conditions. In addition, participants will be paid a bonus distribution — based on actual earnings less guaranteed interest payments, expenses and the payment to the reserve for losses — for the period of June through November. All rates are calculated and quoted on the basis of the actual number of days in a year (an "actual-over-actual" basis).

Effective December 1, 1996:

STIF declares and accrues investor interest daily based on actual STIF earnings (including gains and losses), less expenses and transfers to the designated surplus reserve. Interest is paid monthly through direct distribution or reinvestment. Earned rates are available on a next-day basis. All rates are calculated and quoted on the basis of the actual number of days in a year (an "actual-over-actual" basis) and reported in accordance with guidelines of the Association for Investment Management and Research (AIMR).

J. Administrative Costs

STIF is provided to participants without sales or management fees. Administrative costs are paid from investment earnings, and all STIF participants (including the state and local entities) share in covering the Fund's expenses in proportion to the size of their investments. Costs have run at between two and three basis points (or \$2-3 per \$10,000 invested).

K. Delegation of Authority

The Short-Term Investment Unit within the Treasury's Cash Management Division manages STIF's investments. Deposits, withdrawals, participant record-keeping and the distribution of interest are handled by State Street Bank and Trust under the supervision of the STIF Administration Unit within the Treasury's Cash Management Division.

L. Daily Confirmations

Confirmations of daily deposits and withdrawals are sent the day after the transaction.

M. Monthly Statements

Monthly statements of balances, account activity, and paid interest are mailed to participants by the 10th day of each month.

N. Reports

Quarterly and annual reports describing STIF's yields, performance relative to its primary benchmark (IBC First Tier Institutions-Only Rated Money Fund Index), and investments shall be provided to all participants. A detailed portfolio listing, data on 90-day Treasury bills and 90-day certificates of deposit, and commentary on economic conditions shall be provided with each report. The reports are available on the World Wide Web at: <http://www.state.ct.us/ott>

O. Participant Manual

A manual describing STIF's operating procedures, instructions for opening and closing accounts and making deposits and withdrawals, and methods of distributing interest, is provided to all participants. There currently are no restrictions on the size or number of accounts or transactions.

P. Audit

The Auditors of Public Accounts audit STIF's financial statements and operating procedures annually. Copies of audit opinions and reports will be provided to all participants.

Q. Portfolio Valuation

STIF's values and yields are accounted for on an amortized-cost basis. Market values of all securities, except for those securities listed in Sections H.1.j and H.1.k, above, are calculated on a weekly basis. Significant deviations of market values to amortized costs shall be reported as follows:

1. First Level Notification. If the market value of the overall investment portfolio, based on reports from the custodian, drops below 99.75 percent of the amortized cost value of the overall investment portfolio, or if the ratio of the market value of the overall portfolio to the outstanding participant units drops below 100.50 percent, the Principal Investment Officer would notify the Assistant Treasurer for Cash Management, the Assistant Treasurer for Pension Funds Management, and the Treasurer's Investment Committee at the first weekly meeting following such determination.
2. Second Level Notification. If the market value of the overall investment portfolio, based on reports from the custodian, drops below 99.50 percent of the amortized cost value of the overall investment portfolio, or if the ratio of the market value of the overall portfolio to the outstanding participant units drops below 100.25 percent, the Principal Investment Officer would notify, as soon as practical, the Treasurer, Deputy Treasurer, Assistant Treasurer - Chief of Staff, Assistant Treasurer for Cash Management, Assistant Treasurer for Pension Funds Management, and the Treasurer's Investment Committee. The Treasurer's Investment Committee would then meet in special session to review the circumstances surrounding the fall in one or both ratios, and it would review every

security held by the fund. If this second level notification resulted from a significant increase in fund size that resulted in a proportionate decrease in the relative size of the designated surplus reserve, then portfolio or other changes may not be required. If this second level notification resulted from the decline in market values of securities, then the Investment Committee would consider selling securities that had fallen in value and making use of the designated surplus reserve.

3. Investor Notification. If the ratio of the market value of the overall portfolio to the outstanding participant units drops below 99.75 percent, the Treasurer would notify all STIF investors of the situation and the actions being undertaken to protect against further reductions.

R. Internal Controls

The Treasury shall establish and maintain a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by the Auditors of Public Accounts. The controls shall be designed to prevent and control losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees and officers.

S. Cash Management Advisory Board

STIF's investment practices and performance, including the documentation discussed in Section N, shall be reviewed on a quarterly basis by the Treasurer's Cash Management Advisory Board.

T. Financial Dealers and Institutions

The STIF Investment Officer shall develop criteria for selecting brokers and dealers. All repurchase agreement transactions will be conducted through primary dealers of the Federal Reserve Bank of New York rated at least A-1 and qualified banks (as defined in Sections H.1.b and H.1.c) which have executed master repurchase agreements with the Treasury.

U. Ethics

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose in writing to the Treasurer, or the Treasurer's compliance officer, any material financial interests in financial institutions that conduct business with STIF, and they shall further disclose any large personal financial/investment positions that could be related to the performance of STIF's portfolio, particularly with regard to the time of purchases and sales.

V. Bond Proceeds

Bond proceeds may be deposited in STIF. Accounting and arbitrage rebate calculations are the responsibility of participants. STIF's investment program is not designed to restrict yield in order to avoid arbitrage rebates.

W. Conformance with Guidelines

A nationally-recognized credit rating service recognized by the State Banking Commissioner shall monitor the STIF portfolio on a weekly basis to determine compliance with this policy. The Auditors of Public Accounts review compliance annually.

X. Conformance with National Standards

These guidelines, together with the participant manual, were designed to meet the July 1995 guidelines of the National Association of State Treasurers for local government investment pools.

Y. Investment Guideline Revisions

These guidelines may be revised by the Treasurer due to market changes or regulatory, legislative or internal administrative initiatives. Attempts will be made to provide all STIF investors with at least 30 days of notice before any changes to the investment policy become effective.

The Treasurer reserves the right to make changes immediately to respond to market conditions. In such circumstances, revisions will be sent to all STIF investors within two business days of the revision.

GLOSSARY OF TERMS

- Agency Securities - Securities issued by U.S. Government agencies, such as the Federal Home Loan Bank. These securities have high credit ratings but are not backed by the full faith and credit of the U.S. Government.
- Asset Backed Notes - Financial instruments collateralized by one or more types of assets including real property, mortgages, and receivables.
- Banker's Acceptance (BA) - A high-quality, short-term negotiable discount note, drawn on and accepted by banks which are obligated to pay the face amount at maturity.
- Basis Point (bp) - The smallest measure used in quoting yields or returns. One basis point is 0.01% of yield, 100 basis points equals 1%. A yield that changed from 8.75% to 9.50% increased by 75 basis points.
- Benchmark - A standard unit used as the basis of comparison; a universal unit that is identified with sufficient detail so that other similar classifications can be compared as being above, below, or comparable to the benchmark.
- Capital Gain(Loss) - Also known as capital appreciation(depreciation), capital gain(loss) measures the increase(decrease) in value of an asset over time.
- Certificates of Deposit (CDs) - A debt instrument issued by banks, usually paying interest, with maturities ranging from seven days to several years.
- Commercial Paper - Short-term obligations with maturities ranging from 1 to 270 days. They are issued by banks, corporations, and other borrowers to investors with temporarily idle cash.
- Compounded Annual Total Return - Compounded annual total return measures the implicit annual percentage change in value of an investment, assuming reinvestment of dividends, interest, and realized capital gains, including those attributable to currency fluctuations. In effect, compounded annual total return "smoothes" fluctuations in long-term investment returns to derive an implied year-to-year annual return.
- Consumer Price Index (CPI) - A measure of change in consumer prices, as determined by a monthly survey of the U.S. Bureau of Labor Statistics. Components of the CPI include housing costs, food, transportation, electricity, etc.
- Cumulative Rate of Return - A measure of the total return earned for a particular time period. This calculation measures the absolute percentage change in value of an investment over a specified period, assuming reinvestment of dividends, interest income, and realized capital gains. For example, if a \$100 investment grew to \$120 in a two-year period, the cumulative rate of return would be 20%.
- Derivative - Derivatives are generally defined as contracts whose value depends on, or derives from, the value of an underlying asset, reference rate, or index. For example, an option is a derivative instrument because its value derives from an underlying stock, stock index, or future.
- Discount Rate - The interest rate that the Federal Reserve charges banks for loans, using government securities or eligible paper as collateral.
- Expense Ratio - The amount, expressed as a percentage of total investment, that shareholders pay for mutual fund operating expenses and management fees.
- Federal Funds Rate - The interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. The federal funds rate is one of the most sensitive indicators of the direction of interest rates since it is set daily by the market.
- Federal Reserve Board - The governing body of the Federal Reserve System (12 regional Federal banks monitoring the commercial and savings banks in their regions). The board establishes FRS policies on such key matters as reserve requirements and other regulations, sets the discount rate, and tightens or loosens the availability of credit in the economy.
- Gross Domestic Product - Total final value of goods and services produced in the United States over a particular period or time, usually one year. The GDP growth rate is the primary indicator of the health of the economy.

GLOSSARY OF TERMS

- Index** - A benchmark used in executing investment strategy which is viewed as an independent representation of market performance. An index implicitly assumes cost-free transactions; some assume reinvestment of income. Example: S&P 500 index.
- Inflation** - A measure of the rise in price of goods and services, as happens when spending increases relative to the supply of goods on the market, i.e. too much money chasing too few goods.
- Investment Income** - The equity dividends, bond interest, and/or cash interest paid on an investment.
- Liability** - The claim on the assets of a company or individual - excluding ownership equity. The obligation to make a payment to another.
- Market Value** - The price at which buyers and sellers trade similar items in an open marketplace. Stocks are considered liquid and are therefore valued at a market price. Real estate is illiquid and valued on an appraised basis.
- Master Custodian** - An entity, usually a bank, used as a place for safekeeping of securities and other assets. The bank is also responsible for many other functions which include accounting, performance measurement, and securities lending.
- Maturity Date** - The date on which the principal amount of a bond or other debt instrument becomes payable or due.
- MFR Index (Formerly IBC)** - An index which represents an average of the returns of institutional money market mutual funds that invest primarily in first-tier (securities rated A-1, P-1) taxable securities.
- Money Market Fund** - An open-ended mutual fund that invests in commercial paper, bankers' acceptances, repurchase agreements, government securities, certificates of deposit, and other highly liquid and safe securities and pays money market rates of interest. The fund's net asset value remains a constant \$1 per share - only the interest rate goes up or down.
- Moody's (Moody's Investors Service)** - A financial services company which is one of the best known bond rating agencies in the country. Moody's investment grade ratings are assigned to certain municipal short-term debt securities, classified as MIG-1, 2, 3, and 4 to signify best, high, favorable, and adequate quality, respectively. All four are investment grade or bank quality.
- Net Asset Value (NAV)** - The total assets minus liabilities, including any valuation gains or losses on investments or currencies, and any accrued income or expense. NAV is similar to Shareholders' Equity.
- Par Value** - The stated or face value of a stock or bond. It has little significance for common stocks, however, for bonds it specifies the payment amount at maturity.
- Principal** - Face value of an obligation, such as a bond or a loan, that must be repaid at maturity.
- Prudent Expert Rule** - The standard adopted by some entities to guide those fiduciaries with responsibility for investing money of others. Such fiduciaries must act as a prudent expert would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investment. This is a higher standard than the "prudent person" rule.
- Realized Gain (Loss)** - A gain (loss) that has occurred financially. The difference between the principal amount received and the cost basis of an asset realized at sale .
- Relative Volatility** - A ratio of the standard deviation of the Fund to the standard deviation of its selected benchmark. A relative volatility greater than 1.0 suggests comparatively more volatility in Fund returns than those of the benchmark.
- Repurchase Agreements ("Repos")** - An agreement to purchase securities from an entity for a specified amount of cash and to resell the securities to the entity at an agreed upon price and time. Repos are widely used as a money market instrument.
- Reverse Repurchase Agreements ("Reverse Repos")** - An agreement to sell securities to an entity for a specified amount of cash and to repurchase the securities from the entity at an agreed upon price and time.

GLOSSARY OF TERMS

S&P Ratings -

AAA - Debt having the highest rating assigned by Standard & Poor's. It has the highest capacity to pay interest and its ability to repay principal is extremely strong.

AA - Debt having a very strong capacity to pay interest and repay principal. AA rated debt differs from the higher rated issues by only a small degree.

A - Debt which has a strong capacity to pay interest and repay principal although it is somewhat more susceptible to the adverse effects of change in circumstances and economic conditions than debt in higher rated categories.

BBB - Debt regarded as having an adequate capacity to pay interest and repay principal. BBB is the lowest rating assignable to investment grade securities. Although debt rated BBB normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to weakened capacity to pay interest and repay principal for debt in this category than in higher rated categories.

BB, B, CCC, and CC - These ratings are regarded, on balance, as predominantly speculative with respect to capacity to pay interest and repay principal in accordance to the terms of the obligation.

C - These ratings are reserved for income bonds on which no interest is being paid.

D - These ratings are for debt which is in default. No interest or repayment of principal is being paid.

Soft Dollars - The value of research or other services that brokerage houses and other service entities provide to a client "free of charge" in exchange for the client's business.

Standard Deviation - A statistical measure showing the deviation of an individual value in a probability distributed from the mean (average) of the distribution. The greater the degree of dispersion from the mean rate of return, the higher the standard deviation; therefore, the higher the risk.

Treasury Bill (T-Bill) - Short-term, highly liquid government securities issued at a discount from the face value and returning the face amount at maturity.

Treasury Bond or Note - Debt obligations of the Federal government that make semiannual coupon payments and are sold at or near par value in denominations of \$1,000 or more.

Turnover - The minimum of security purchases or sales divided by the fiscal year's beginning and ending market values for a given portfolio.

Unrealized Gain (Loss) - A profit (loss) that has not been realized through the sale of a security. The gain (loss) is realized when a security or futures contract is actually sold or settled.

Variable Rate Note - Floating rate notes with a coupon rate adjusted at set intervals, such as daily, weekly, or monthly, based on different interest rate indices, such as LIBOR, Fed Funds, and Treasury Bills.

Volatility - A statistical measure of the tendency of a market price or yield to vary over time. Volatility is said to be high if the price, yield, or return typically changes dramatically in a short period of time.

Yield - The return on an investor's capital investment.

Statistical

Section



STATISTICAL SECTION

This part of the Short-Term Investment Fund's (STIF's) comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial schedules and other supplementary information say about the overall financial health of STIF. The schedules within this statistical section comply with the requirements of GASB 44.

Financial Trends

These schedules contain the Global Investment Performance Standards (GIPs) and ten-year trend information on the financial performance of STIF.

<u>Schedule</u>	<u>Pages</u>
o Schedule of rates of return	43-46

Revenue Capacity

Revenue capacity is not applicable to STIF.

Borrowing Capacity

Section H 2. of the Short-Term Investment Fund's Investment Policy allow the fund to utilize reverse repurchase agreements to meet temporary liquidity requirements of the fund. The following statistics outline STIF's borrowing capacity as of June 30, 2008.

<u>Description</u>	<u>Amount</u>
Outstanding borrowing	\$0
Maximum borrowing amount	Five percent of total assets
Collateral requirement	Must be collateralized at a minimum of 100 percent

Demographic and Economic Information

These schedules show the breakdown between state and municipal funds, growth of the fund and rate information.

<u>Schedule</u>	<u>Page</u>
o Growth of participant units	47
o Monthly and annual comparative yields	48

Operating Information

The summary of operations schedule outlines the expenses, additions and deductions associated with the management of STIF.

<u>Schedule</u>	<u>Page</u>
o Changes in Net Assets	49
o Distributions to participants	50

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. STIF implemented Statement 34 in fiscal year 2005.

REPORT OF INDEPENDENT ACCOUNTANTS

Treasurer of the State of Connecticut
Hartford, Connecticut

We have examined the Office of the Treasurer Short-Term Investment Fund's (the Fund) (1) compliance with all the composite construction requirements of the Global Investment Performance Standards (GIPS® standards) on a firm-wide basis for each of the years ended July 1, 2001 through June 30, 2008 and (2) design of its processes and procedures to calculate and present performance results in compliance with the GIPS standards as of June 30, 2008. We have also examined the Fund's Composite Performance Presentation (the Annual 2007® Schedule of Rates® schedule of Rates of Return) for each of the years from July 1, 2001 through June 30, 2008. The Fund's management is responsible for compliance with the GIPS standards and the design of its processes and procedures and for the Performance Presentation for its Short - Term Investment Fund. Our responsibility is to express an opinion based on our examination. Each of the years from July 1, 1998 to June 30, 2001 were examined by other independent auditors whose report, dated September 24, 2001, expressed an unqualified opinion thereon.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Company's compliance with the above-mentioned requirements; evaluating the design of the Company's processes and procedures referred to above; examining, on a test basis, evidence supporting the accompanying composite performance presentation; and performing the procedures for a verification and a performance examination set forth by the GIPS® standards and such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the Office of the Treasurer Short-Term Investment fund has, in all material respects:

- Complied with all the composite construction requirements of the GIPS standards on a firm-wide basis for the one year periods ended June 30, 2002 through June 30, 2008; and
- Designed its processes and procedures to calculate and present performance results in compliance with the GIPS standards as of June 30, 2008.

Also, in our opinion, the accompanying Short - Term Investment Fund Composite Performance Presentation for each of the years from July 1, 2001, through June 30, 2008, is presented, in all materials respects, in conformity with the GIPS standards.

UHY LLP

Hartford, Connecticut
November 24, 2008

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

SCHEDULE OF ANNUAL RATES OF RETURN

	Year Ended June 30,									
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
STIF Total Rate of Return (%)	4.13	5.54	4.38	2.32	1.16	1.64	2.61	6.11	6.01	5.37
First Tier Institutional-only Rated Money Fund Report Averages™ (MFR) Index (%)⁽¹⁾	4.07	5.14	4.01	1.91	0.75	1.20	2.22	5.74	5.58	5.04
Total Assets in STIF, End of Period (\$ - Millions)	5,054	5,004	5,430	4,314	3,829	3,280	3,546	4,565	3,701	3,646
Percent of State Assets in Fund	83	80	84	84	81	69	67	71	71	71
Number of Participant Accounts in Composite, End of Year⁽²⁾										
State Treasury	39	47	58	84	124	115	112	55	55	54
Municipal and Local Entities	637	578	542	548	556	551	544	496	433	415
State Agencies and Authorities	418	406	406	446	474	440	428	346	312	313
Total	1,094	1,031	1,066	1,078	1,154	1,106	1,084	897	800	782

(1) Represents iMoneyNet's First Tier Institutional-only Rated Money Fund Report Averages™- (MFR) Index. These Index rates have been taken from published sources and have not been examined by UHY LLP (formerly Scillia Dowling & Natarelli LLC) or Deloitte & Touche LLP.

(2) As of 2006 and going forward, inactive accounts were closed and only active accounts were included in the total number of participant accounts.

See Notes to Schedules of Rates of Return.

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

SCHEDULE OF QUARTERLY RATES OF RETURN

FISCAL YEAR	Rate of Return(%)	Institutional-only Rated Money Fund Report Averages™ (MFR) Index(%)⁽¹⁾	FISCAL YEAR	Rate of Return(%)	Institutional-only Rated Money Fund Report Averages™ (MFR) Index(%)⁽¹⁾
2008			2003		
Sep-07	1.34	1.27	Sep-02	0.48	0.38
Dec-07	1.24	1.19	Dec-02	0.45	0.32
Mar-08	0.90	0.92	Mar-03	0.36	0.26
Jun-08	0.59	0.62	Jun-03	0.35	0.24
YEAR	4.13	4.07	YEAR	1.64	1.20
2007			2002		
Sep-06	1.36	1.26	Sep-01	0.95	0.85
Dec-06	1.38	1.26	Dec-01	0.66	0.55
Mar-07	1.33	1.26	Mar-02	0.48	0.41
Jun-07	1.36	1.26	Jun-02	0.49	0.39
YEAR	5.54	5.14	YEAR	2.61	2.22
2006			2001		
Sep-05	0.89	0.80	Sep-00	1.69	1.58
Dec-05	1.05	0.93	Dec-00	1.70	1.58
Mar-06	1.12	1.05	Mar-01	1.45	1.39
Jun-06	1.25	1.17	Jun-01	1.14	1.06
YEAR	4.38	4.01	YEAR	6.11	5.74
2005			2000		
Sep-04	0.38	0.29	Sep-99	1.33	1.23
Dec-04	0.53	0.41	Dec-99	1.46	1.33
Mar-05	0.64	0.54	Mar-00	1.48	1.40
Jun-05	0.77	0.67	Jun-00	1.60	1.51
YEAR	2.32	1.91	YEAR	6.01	5.58
2004			1999		
Sep-03	0.28	0.19	Sep-98	1.42	1.34
Dec-03	0.30	0.19	Dec-98	1.37	1.26
Mar-04	0.29	0.19	Mar-99	1.24	1.19
Jun-04	0.29	0.18	Jun-99	1.23	1.16
YEAR	1.16	0.75	YEAR	5.37	5.04

(1) Represents iMoneyNet's First Tier Institutional-only Rated Money Fund Report Averages™. (MFR) Index. These Index rates have been taken from published sources and have not been examined by UHY LLP (formerly Scillia Dowling & Natarelli LLC) or Deloitte & Touche LLP.

See the accompanying Notes to the Schedules of Rates of Return.

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

NOTES TO SCHEDULES OF RATES OF RETURN FOR THE 10 YEAR INVESTMENT PERIOD JULY 1, 1998 THROUGH JUNE 30, 2008

NOTE 1: ORGANIZATION

The Connecticut State Treasury Short-Term Investment Fund ("STIF" or the "Fund") was created by Sec. 3-27 of the Connecticut General Statutes as an investment vehicle restricted for use by the State, State agencies and authorities, State municipalities and other political subdivisions of the State. STIF is a fully discretionary money market investment pool managed by the Connecticut State Treasury ("Treasury") as a single composite. STIF's objective is to provide as high a level of current income as is consistent with safety of principal and liquidity to meet participants' daily cash flow requirements. During the 2008 fiscal year, STIF's portfolio averaged \$5.1 billion.

NOTE 2: PERFORMANCE RESULTS

STIF has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS) for the period July 1, 1998 through June 30, 2008. The performance presentation for the period July 1, 1998 through June 30, 2008 has been subject to a verification in accordance with GIPS standards by an independent public accounting firm whose report is included herein. For the purposes of compliance with GIPS standards for the Short-Term Investment Fund, the Treasury has defined the "Firm" as the funds under the control of the State Treasurer, State agencies and State authorities for which the Treasurer has direct investment management responsibility within the Short-Term Investment Fund.

Results are net of all operating expenses and contributions to designated surplus reserves. As STIF is managed by employees of the Treasury, no advisory fees are paid.

NOTE 3: CALCULATION OF RATES OF RETURN

STIF uses a time-weighted linked rate of return formula to calculate rates of return. This method is in accordance with the acceptable methods set forth by the Global Investment Performance Standards (GIPS). Other methods may produce different results and the results for individual participants and different periods may vary. The current rates of return may not be indicative of future rates of return.

The time-weighted linked rate of return formula used by STIF is as follows: Monthly returns are calculated by taking the sum of daily income earned on an accrual basis, after deduction for all operating expenses and a transfer to the Designated Surplus Reserve, divided by the average daily participant balance for the month.

The rates of return presented herein are those earned by the Fund during the periods presented as described above.

NOTE 4: DESIGNATED SURPLUS RESERVE

In order to provide some protection to the shareholders of STIF from potential credit and market risks, the Treasurer has designated that a portion of each day's net earnings be transferred to the Designated Surplus Reserve (Reserve). Such amounts are restricted in nature and are not available for current distribution to shareholders. Beginning December 1, 1996, the amount transferred daily to the Designated Surplus Reserve is equal to 0.1 percent of end of day investment balance divided by the actual number of days in the year. As of June 30, 2008, the balance in the Designated Surplus Reserve was \$29,143,785 which reflects \$1.9 million in contributions during the year and a December 5, 2008 transaction recognizing a \$24 million transfer due to a reduction in the value of our Cheyne (Gryphon) securities. The reserve totaled \$53.1 million prior to reflecting that transaction.

No transfer is to be made if the reserve account is equal to or greater than 1.0 percent of the daily investment balance. If net losses significant to the aggregate portfolio are realized, the Treasurer is authorized to transfer funds from the Reserve to Participant Units Outstanding.

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

**NOTES TO SCHEDULES OF RATES OF RETURN (Continued)
FOR THE 10 YEAR INVESTMENT PERIOD JULY 1, 1997 THROUGH JUNE 30, 2007**

NOTE 5: ADDITIONAL DISCLOSURES

These results solely reflect the performance of STIF. The Fund's principal investment officer was hired in February 2005, and has been responsible for the management of the Fund since that time. The previous principal investment officer had been the portfolio manager since 1983.

Benchmark information presented in the Schedules of Rates of Return was obtained from published sources which are believed to be reliable. Such information is supplemental and is not covered by the independent accountants' report.

STIF does not make significant use of leverage. The only leverage employed by the Fund is the occasional use of reverse repurchase agreements. These agreements, which are limited by policy to no more than 5 percent of total Fund assets, are used only to meet temporary liquidity requirements of the Fund.

The Fund has accounted for all security purchases and sales on a trade date basis. Because the Fund purchases short term investments whose market values do not fluctuate significantly and since all investments are accounted for on an amortized cost basis, the difference between the trade and settlement date basis has no significant impact on the performance reported herein.

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

GROWTH OF PARTICIPANT UNITS UNDER MANAGEMENT

<u>Date</u>	<u>Municipal</u>	<u>State*</u>	<u>Total</u>	<u>Annual Growth</u>
6/2008	\$853,181,810	\$4,172,196,059	\$5,025,377,869	1.46%
6/2007	1,007,813,533	3,945,011,848	4,952,825,381	-7.99
6/2006	842,346,535	4,540,395,185	5,382,741,720	26.05
6/2005	662,638,019	3,607,739,707	4,270,377,726	12.75
6/2004	730,794,748	3,056,676,643	3,787,471,391	17.07
6/2003	992,782,295	2,242,477,260	3,235,259,555	-7.58
6/2002	1,152,346,474	2,348,084,089	3,500,430,563	-22.43
6/2001	1,294,266,155	3,218,210,906	4,512,477,061	23.63
6/2000	1,041,887,596	2,608,041,137	3,649,928,733	1.35
6/1999	856,142,725	2,745,166,342	3,601,309,067	14.43
6/1998	934,295,960	2,213,009,736	3,147,305,696	26.34
6/1997	683,631,474	1,807,440,011	2,491,071,485	25.56

* State includes State Treasury, agencies and authorities.

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

MONTHLY COMPARATIVE YIELDS

	<u>STIF</u>	<u>Benchmarks^(b)</u>		
	Earned Rate ^(a)	First Tier Institutional -only Rated Money Fund Report Averages™ MFR Index	Fed. Reserve Three Mo. T-Bill	Fed. Reserve Three Mo. CD
06/2008	2.39%	2.34%	1.88%	2.93%
05/2008	2.31	2.45	1.78	2.89
04/2008	2.42	2.67	1.31	2.96
03/2008	3.02	3.11	1.22	2.79
02/2008	3.45	3.55	2.16	3.10
01/2008	4.25	4.34	2.83	3.91
12/2007	4.64	4.65	3.06	5.04
11/2007	4.97	4.70	3.34	4.94
10/2007	5.14	4.93	4.00	5.15
09/2007	5.14	5.11	3.99	5.51
08/2007	5.22	5.06	4.36	5.44
07/2007	5.47	5.03	4.95	5.31
06/2007	5.49	5.03	4.73	5.31

ANNUAL COMPARATIVE YIELDS

	<u>STIF</u>	<u>Benchmarks^(b)</u>		
	Earned Rate ^(a)	First Tier Institutional -only Rated Money Fund Report Averages™ MFR Index	Fed. Reserve Three Mo. T-Bill	Fed. Reserve Three Mo. CD
2008	4.13%	4.07%	2.91%	4.16%
2007	5.54	5.14	5.01	5.32
2006	4.38	4.01	4.15	4.46
2005	2.32	1.91	2.25	2.48
2004	1.16	0.75	0.97	1.11
2003	1.64	1.20	1.31	1.40
2002	2.61	2.22	2.17	2.24
2001	6.11	5.74	5.26	5.64
2000	6.01	5.58	5.37	5.99
1999	5.37	5.04	4.59	5.16

(a) Actual earnings less expenses and transfers to reserves.

(b) Represents iMoneyNet's First Tier Institutional-only Rated Money Fund Report Averages™- (MFR) Index. These Index rates have been taken from published sources and have not been examined by UHY LLP (formerly Scillia Dowling & Natarelli LLC) or Deloitte & Touche LLP.

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND
CHANGES IN NET ASSETS LAST TEN FISCAL YEARS (dollars in millions)

	Fiscal Year									
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Additions										
Net Investing income	\$208.2	\$287.2	\$217.9	\$96.6	\$45.1	\$60.9	\$111.2	\$255.0	\$213.8	\$198.3
Net Realized gain	0.0	0.2	0.0	0.0	0.2	0.4	0.7	0.2	0.5	0.0
Net decrease in fair value of investments	(24.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchase of units by participants	14,455.6	13,710.3	13,308.2	12,857.1	12,774.7	12,353.9	11,573.4	12,278.4	10,664.2	10,090.6
Total additions to net assets	14,639.8	13,997.7	13,526.1	12,953.7	12,820.0	12,415.2	11,685.3	12,533.6	10,878.5	10,288.9
Deductions										
Operating expenses	(1.1)	(1.2)	(1.3)	(1.1)	(0.9)	(0.9)	(0.8)	(0.9)	(1.0)	(0.8)
Income distributed to investors (Notes 2 and 6)	(205.2)	(282.3)	(212.7)	(93.8)	(43.4)	(59.7)	(108.7)	(250.4)	(210.1)	(193.8)
Redemption of units by participants	(14,383.1)	(14,140.3)	(12,195.8)	(12,374.2)	(12,222.5)	(12,619.0)	(12,585.4)	(11,415.8)	(10,615.6)	(9,636.6)
Total deductions from net assets	(14,589.4)	(14,423.8)	(12,409.8)	(12,469.1)	(12,266.8)	(12,679.6)	(12,694.9)	(11,667.1)	(10,826.7)	(9,831.2)
Change in net assets	50.4	(\$426.1)	\$1,116.3	\$484.6	\$553.2	(\$264.4)	(\$1,009.6)	\$866.5	\$51.8	\$457.7
Net Assets - Beginning of Period	5,004.1	\$5,430.2	\$4,313.9	\$3,829.3	\$3,276.1	\$3,540.5	\$4,550.1	\$3,683.6	\$3,631.8	\$3,174.1
Net Assets - End of Period	5,054.5	\$5,004.1	\$5,430.2	\$4,313.9	\$3,829.3	\$3,276.1	\$3,540.5	\$4,550.1	\$3,683.6	\$3,631.8
Designated Surplus Reserve Transfer	1.9	\$3.8	\$3.9	\$1.7	\$1.0	\$0.9	\$2.3	\$3.9	\$3.2	\$3.7
Designated Surplus Reserve Transfer Balance*	\$29.1	\$51.3	\$47.4	\$43.5	\$41.8	\$40.8	\$39.9	\$37.6	\$33.7	\$30.5

* As of June 30, 2008, the balance in the Designated Surplus Reserve was \$29,143,785 which reflects \$1.9 million in contributions during the year and a December 5, 2008 transaction recognizing a \$24 million reduction in the value of our Cheyne (Gryphon) securities. (See note 9.) The reserve totaled \$53.1 million prior to reflecting that transaction.

Note: Details may not add to totals due to rounding.

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

DISTRIBUTIONS TO PARTICIPANTS

Distributions:	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
July	\$23,237,650	\$24,345,190	\$12,263,547	\$4,488,148	\$3,459,841	\$5,630,151	\$14,892,482	\$21,068,172	\$15,369,550	\$14,869,926
August	26,051,672	27,564,817	14,624,900	5,455,631	3,999,517	6,319,460	15,859,392	25,325,394	18,626,337	17,980,323
September	24,381,386	25,645,680	15,299,129	6,113,181	3,696,228	6,481,756	14,497,488	24,965,829	18,327,219	17,448,280
October	23,109,275	23,994,071	15,278,679	6,591,446	3,507,310	6,212,452	11,674,472	24,109,511	17,962,446	17,360,524
November	19,591,395	21,300,897	14,525,210	6,268,350	3,246,255	4,919,008	8,037,557	20,453,180	16,080,280	16,212,546
December	15,941,753	20,518,091	14,839,019	6,750,839	3,139,363	4,678,374	6,640,090	19,429,983	16,350,536	15,438,709
January	16,365,735	22,743,650	17,249,274	8,060,413	3,614,655	4,669,456	6,785,539	22,627,719	17,113,994	16,389,685
February	14,164,444	22,710,701	17,972,835	8,336,789	3,686,284	4,285,455	5,878,246	20,656,552	18,204,877	16,298,605
March	12,867,724	23,294,961	21,840,530	9,919,350	3,712,929	4,290,218	6,247,456	20,629,174	18,276,157	16,745,275
April	10,148,379	23,423,230	22,581,575	10,410,745	3,703,840	4,125,914	5,953,400	18,723,246	17,371,981	15,542,275
May	10,362,416	24,433,435	23,888,854	11,009,094	3,943,286	4,345,137	6,492,416	17,658,291	18,674,115	15,817,450
June	8,962,975	22,370,027	22,283,125	10,424,248	3,665,289	3,672,707	5,777,864	14,741,778	17,784,976	13,688,661
Total Distribution to Participants	\$205,184,804	\$282,344,750	\$212,646,678	\$93,828,235	\$43,374,797	\$59,630,088	\$108,736,391	\$250,388,829	\$210,142,470	\$193,792,259

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