



**OFFICE OF
STATE TREASURER
DENISE L. NAPPIER**

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**NAPPIER INITIATIVE ENCOURAGES INVESTMENT BUSINESS
WITH CONNECTICUT BROKERS, WOMEN- AND
MINORITY-OWNED FIRMS AND EMERGING BUSINESSES**

Domestic Equity Brokerage Program Seen as Boost to State Businesses

State Treasurer Denise L. Nappier is proposing that more of the Treasury's brokerage business stay in Connecticut, and that women and minority owned firms and firms new to the industry also get a share of the Treasury's business.

Nappier said the "Domestic Equity Brokerage Program," which was outlined for the state's Investment Advisory Council on Wednesday, has two important goals: "First, keep more of the Treasury's business right here in Connecticut. Second, provide opportunities for brokerage businesses too often shut out— firms owned by women and minorities, and new firms trying to break into the field. We hope to ensure that a wider array of broker-dealers has an opportunity to earn a portion of our pension fund business."

The initiative encourages investment managers to allocate at least 30 percent of securities trading brokerage commissions to Connecticut-based broker-dealers, 25 percent to minority broker-dealers and/or women broker-dealers, and 5 percent to emerging broker-dealers. The program covers only domestic equity holdings. Broker-dealers are hired by the pension fund's domestic equity portfolio managers, who manage nearly \$8 billion of the fund's \$20 billion in assets.

During the fiscal year ending June 30, 2001, total commissions paid to all brokers for domestic equity trades was \$5.9 million. Of this amount, an estimated 25 percent was paid to brokers with a registered agent in Connecticut, although the percentage that actually went to Connecticut brokers was even less.

Nappier noted that many of the leading international financial firms doing business with the Treasury have offices in Connecticut, but nonetheless assign Connecticut Treasury business to offices outside the state. She's looking to encourage those firms to utilize their Connecticut offices for Connecticut Treasury business.

"It is my hope and expectation that this program will reverse a troubling trend in the Fund's brokerage practices, whereby many firms -- in particular, those based in Connecticut -- have been

CONTACT: BERNARD L. KAVALER
DIRECTOR OF COMMUNICATION
(860) 702-3277 FAX (860) 702-3043
BERNARD.KAVALER@PO.STATE.CT.US

excluded from providing services on behalf of the Fund. As much as possible, they should be keeping that business in Connecticut," Nappier said.

The Nappier proposal would also encourage fund managers to provide women-owned and minority-owned brokerage businesses with an opportunity to participate in Treasury transactions. During the fiscal year ending June 30, 2001, an estimated one percent of total commissions paid for domestic equity trades was earned by minority or women brokers.

Under the plan, domestic equity advisers will be encouraged to allocate a percentage of stock trades in the portfolios they manage for the Treasury to three categories of broker-dealers: (1) Connecticut-based; (2) women and minorities; and (3) emerging. Advisers may select any broker they deem appropriate that meets the definitions of the program. Firms would be required to file quarterly reports outlining their success at meeting the goals.

According to the Connecticut Department of Banking, there are approximately 415 brokerage firms with registered agents in Connecticut.

Pension fund investment managers currently are obligated by contract to allocate trades in a manner that is: (1) consistent with generally accepted principles of best execution; (2) nondiscriminatory; and (3) in concert with the pension fund's overall objectives, policies and procedures. Those requirements will continue, and the new guidelines will set out targets, not requirements.

"There are a great many well-qualified firms that can provide financial services without sacrificing one iota of professional quality. We will absolutely maintain the highest standards of fiscal management, and fully expect we can achieve this result utilizing these guidelines," Nappier said.

Nappier noted that for nearly 25 years through 1995 the Connecticut Treasury had an internal trading desk that encouraged investment managers to do business with Connecticut firms. That internal trading capacity was dismantled by former Treasurer Christopher Burnham, at a time when an estimated 50 percent of commissions were paid to Connecticut-based, women or minority brokers. Since then, external portfolio managers have had no guidelines regarding Connecticut-based, emerging or women or minority brokers, and the number of those brokers selected has plummeted. This initiative is aimed at reversing that trend.

"This program will not direct that business be done with any particular firm," Nappier said. "Consistent with state law regarding allocating state business, such as the Department of Administrative Service's set-aside program, it will urge companies that we do business with to hire Connecticut companies and work with a wide array of firms. The Treasurer's Office will not select brokerage firms. Those decisions will continue to be made by our investment managers."

A number of other pension funds have similar guidelines, including the Chicago Teachers' Pension and Retirement Fund, the Ohio Bureau of Workers' Compensation, the New York State Retirement Fund, the State Universities Retirement System of Illinois and the City of Hartford Municipal Employees Retirement Fund.

The initiative was presented at Wednesday's Investment Advisory Council (IAC) meeting, and is expected to be finalized in December. Treasurer Nappier said she looked forward to receiving further input from IAC members, and hoped to begin the program by early next year.