



OFFICE OF
STATE TREASURER
DENISE L. NAPPIER

NEWS

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Nappier Steps Up Criticism of Investment Firm, Will Initiate Detailed Review of Investment Practices

***Renews Call for Federal Probe into Actions of Pioneer Ventures,
Attorney General Will Assist Treasury Inquiry***

Saying recent events had heightened ongoing concern, State Treasurer Denise L. Nappier today announced a series of actions related to the investment practices and conduct of Pioneer Ventures Associates Limited Partnership. The Windsor-based private equity investment firm received a commitment of \$75 million in state pension funds from former Treasurer Paul Silvester, who has since been convicted on federal corruption charges.

"It has become increasingly clear, in light of recent Securities and Exchange Commission actions, that the principals in Pioneer have abrogated their fiduciary duties and exhibited flagrant disregard for the basic tenets of prudent financial oversight," Nappier said.

The Treasurer said that at every turn, the partnership has been resistant, evasive and uncooperative. She pointed out that the firm has taken every opportunity to hide behind contractual terms unfavorable to the pension fund that were negotiated with former Treasurer Silvester. That behavior has continued, even in light of recent SEC actions and serious concerns that have been raised both by her office and published reports.

"From day one, it has been clear that Pioneer had no business managing state pension funds. We have known for some time that the fund was replete with bad investments and poor decisions, but we are now extremely concerned that the activities may have even more ominous implications," Nappier said.

More than two weeks ago, Pioneer agreed to provide to the Treasurer's Office a written response to public allegations regarding their business relationships with Lancer Management Group, a firm that was the subject of SEC enforcement action regarding stock manipulation involving companies including Fidelity First Financial Corp., a firm in which Pioneer invested state pension funds and Pioneer principal John Ferraro served as a board member. It was those reports that led Nappier last month to formally ask the Office of United States Attorney and the Securities and Exchange Commission to either confirm the existence of, or initiate, an investigation of this matter.

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Pioneer has yet to provide that written report, and subsequent communication between the Treasurer's Office and Pioneer has only heightened the Treasury's very serious concerns.

"We now have reason to believe that there may have been gross overvaluations of Fidelity First, and substantial questions remain regarding other aspects of the Pioneer portfolio and their actions related to those investments," Nappier said in announcing she had taken the following actions:

1. The Connecticut Retirement Plans and Trust Funds is establishing a loss reserve for the entire value of the Fidelity First investment, effectively removing the value stated by Pioneer from pension fund books until such time as Pioneer can fully justify the basis for their stated valuation. As of December 31, 2002, when the SEC reported Fidelity First's total assets as \$25,101, Pioneer valued the holdings in Fidelity First at \$5.3 million. As of June 30, 2003, Pioneer had increased the value of those holdings to \$7.2 million. The Treasury action is virtually unprecedented in the state's pension portfolio, but is appropriate and prudent given recent events and the disturbing absence of any reasonable explanation by Pioneer for the firm's actions or valuations.
2. The Treasury has formally requested that Pioneer provide the Treasurer's Office with a full and complete analysis and accounting of the basis upon which the valuation of all underlying investments in the portfolio have been determined and an explanation of the method for determining the cost basis for those investments.
3. The Treasury has provided the SEC and Justice Department with additional information based upon Treasury staff conversations with a principal of Pioneer that underscores the importance of the investigation that was requested on September 23, 2003.
4. The Treasury is formally notifying Pioneer that the Office will initiate a comprehensive forensic audit of the underlying investments and related financial activities in the Pioneer portfolio. This extraordinary action is necessitated by serious and substantial concerns regarding the Pioneer investment portfolio.
5. The Office of Attorney General has agreed to assist the Treasury's review of Pioneer's actions to determine whether there have been violations of state law or contractual or fiduciary obligations and whether means exist to pursue the recovery of pension assets.

"My substantial reservations about the \$75 million Silvester-Pioneer commitment have been quite clear from the outset. Despite severely limited exit strategies and remarkably unfavorable terms in the contract negotiated by Pioneer and Silvester, my administration achieved a \$25 million reduction in that commitment in 2000, and I sought an SEC investigation at that time," Nappier said. Any additional unilateral reductions of the Silvester investment commitment could have placed the pension fund at greater legal and financial risk.

The Treasurer said that the recent information underscores the importance of renewed investigation by appropriate authorities, a full and complete accounting of Pioneer's actions and a thorough examination of any and all remedies that may be available to the state pension fund.

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