OFFICE OF
STATE TREASURER
DENISE L. NAPPIER

NEWS

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TREASURY SEVERS TIES WITH SILVESTER-ERA INVESTMENT COMPANY; PIONEER VENTURES TURNS OVER $18.5 MILLION TO PENSION FUND

Nappier administration recoveries, cost savings total $48.2 million

State Treasurer Denise L. Nappier has announced that the state has severed all ties with a Windsor-based private equity investment firm that invested nearly $50 million in state pension funds in an investment deal with disgraced former Treasurer Paul Silvester.

The agreement is the latest in ongoing efforts by Nappier's office to limit expected losses and reduce management fees the state was contractually obligated to pay, resulting from an investment commitment by Silvester with Pioneer Venture Associates Limited Partnership.

Overall, the Nappier Administration has recovered and/or achieved cost savings of $48.2 million from Silvester's 1998 commitment to Pioneer of $75 million. The $48.2 million includes investment commitment reductions, management fee reductions, cash receipts and the estimated value of remaining investments.

That total is fifteen times the amount the pension fund had received from Pioneer. Prior to the settlement, the private equity firm had provided only $3.2 million to the pension fund from its investments, and that amount was more than completely offset by $4 million in management fees that the pension fund was contractually obligated to pay to Pioneer's general partners. *(see chart)*

"The bulk of what the pension fund ultimately received or retained was a result of our recovery efforts and negotiations, and a very small percentage resulted from distributions by Pioneer," Nappier said. "And even that small amount was effectively wiped out by management fees."

In extricating the Treasury from the long-term obligation, Nappier said that her office, which had virtually no leverage based on the terms of the contract, managed through conscientious negotiations to achieve a number of critical objectives. The settlement with Pioneer:

- **Ends the State's relationship with Pioneer at least two years ahead** of the scheduled end of the contractual relationship, without any financial penalty for early termination.
- **Recovers $18.5 million in cash,** which has been paid directly to the pension fund.
- Dramatically **reduces the Treasury's obligations to pay management fees** to Pioneer, from an anticipated $2 million to $250,000.
- **Completely severs all ties** with eleven "shell companies" among the Pioneer investments.
- Provides the pension fund with **full ownership of four viable investments.***

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"To put it plainly, we have pulled another significant victory from the jaws of total defeat. In other words, we succeeded in preserving nearly two-thirds of the original Silvester capital commitment. This relationship, which my administration inherited, had the potential to cost the pension fund considerably more, but for our unwavering diligence and determination to minimize potential losses and recover every possible dollar," Nappier said.

Under terms of the Silvester commitment with Pioneer, which was to expire in 2007, Pioneer could have extended the relationship with the pension fund for an additional two years, during which time management fees could have continued to be charged to the pension fund, regardless of investment performance.

The final legal transfer of funds and securities was completed on November 22, 2005. Under the agreement, the Treasury received the $18.5 million payment on September 2, 2005, as the transfer of remaining viable assets proceeded in accordance with governing shareholder agreements and security transfer laws.

"First and foremost, we prevented substantial additional losses and recovered significant assets, and now we will no longer have any association with Pioneer," Nappier said. "Beyond that, we jettisoned investments that were mere shells, retained the few worthy investments, and saved millions in management fees that the pension fund was contractually obligated to pay, regardless of the quality of the work being done."

Nappier had raised serious concerns about the Pioneer investment since taking office in 1999. In the wake of the Silvester scandal and his guilty plea to federal corruption charges in September of that year, Nappier successfully negotiated a $25 million reduction of the $75 million that Silvester had committed to Pioneer. In addition, Nappier negotiated a 25% reduction in management fees that would be paid to Pioneer, effective as of June 2000, which resulted in a savings to the pension fund of nearly $1 million.

"While legally locked into a business relationship that provided limited returns and little value, we were successful in preserving substantial capital, and negotiated a way out that is in the best interest of fund beneficiaries," Nappier added.

Additionally, as Nappier's office sought to extricate the pension fund from the remaining elements of the Pioneer investment, the Treasurer urged the Securities and Exchange Commission and federal prosecutors to investigate the firm. While awaiting federal action, Nappier initiated a comprehensive forensic audit of the firm in 2004, working with the Office of Attorney General Richard Blumenthal. The audit, which helped to advance settlement negotiations, found evidence that Pioneer's leadership had provided the Treasurer's Office with misleading information.

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*Control of those investments, with an approximate current value of $2 million - Compass Knowledge, Bartech Systems, Bio Minerals, and Energy Brands - have been assigned to Fairview Capital, an existing Treasury investment manager, to manage and liquidate.

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Connecticut Retirement Plans and Trust Funds

Pioneer Venture Associates Limited Partnership

HIGHLIGHTS			
Original Commitment by Silvester (1998)	**$75 million**		
Nappier Administration achieved reduction in state commitment (1999)		**$25 million**	
Nappier Administration achieved 25% reduction in future fees (1999)		**$1 million**	
Distributions of funds received from Pioneer			$3.2 million
Nappier Administration achieved 80% reduction in pending fee obligations (2005)		**$1.75 million**	
Nappier Administration recovered cash from Pioneer in settlement (2005)		**$18.5 million**	
Approximate Current Value of Viable Investments Transferred to Pension Fund (2005)		**$2 million**	
SUMMARY			
Original Commitment by Silvester (1998)	**$75 million**		
State Pension Funds Invested by Pioneer	$49.9 million		
Funds Distributed to Pension Fund by Pioneer*			$3.2 million
Recoveries/Cost Savings by Nappier Administration		**$48.25 million**	

*During this same period, based on contractual obligations, the pension fund paid $4 million in management fees to Pioneer.

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