



The Office Of State Treasurer
Denise L. Nappier

News

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CONNECTICUT'S LARGEST PENSION PLANS OUTPERFORM BENCHMARKS FOR FISCAL YEAR 2016

*Treasurer Nappier Renews Call
For Lower Investment Return Assumptions*

HARTFORD, CT – The Connecticut Retirement Plans and Trust Funds (“CRPTF”) generated a net investment return of 0.35 percent for the fiscal year ended June 30, including a 1.15 percent return for the Municipal Employees’ Retirement Fund, which outperformed its investment benchmark of 0.77 percent, State Treasurer Denise L. Nappier announced today.

The State’s two largest pension funds – the Teachers’ Retirement Fund (“TERF”) and the State Employees’ Retirement Fund (“SERF”) – also outperformed their benchmarks. They posted net investment results of 0.25 percent and 0.26 percent, respectively, for Fiscal Year 2016, versus their corresponding investment benchmarks of -0.06 percent and -0.01 percent.

“We can only earn what the market will bear and we’re always pleased when we beat our benchmarks,” Treasurer Nappier said. “This low level of absolute performance is consistent with our view that markets have moved into a financial environment unlikely to yield the robust returns of the past few years that helped us to rebuild and grow assets in the wake of the Great Recession. And as investors in a global economy, we are impacted by events and trends such as Brexit, slower growth in China, and commodity price weakness that could lead to increased uncertainty and volatility.”

Longer term, the five-year returns for TERF and SERF are 5.71 percent and 5.74 percent, trailing the funds’ actuarial return assumptions.¹ While the seven-year returns are 8.75 percent for TERF and 8.83 percent for SERF, the ten-year returns are 5.25 percent and 5.14 percent, respectively.

“These returns underscore what many of us in the business of investing pension funds already know: we need to right-size investment return assumptions for TERF and SERF, lowering them to conform with the mediocre forecast for capital market performance going forward,” Treasurer Nappier said.

¹ The actuarial return assumption for TERF was 8.5 percent until November 2015 when it was lowered to 8 percent. The actuarial return assumption for SERF was 8.25 percent until September 2012 when it was lowered to 8 percent.

“Markets have largely recovered from the troughs seen in the Great Recession but are susceptible to downside surprises stemming from changes to the global economic outlook,” she said. “If return assumptions are set at levels unlikely to be attained, it will be difficult to achieve them without pursuing high risk investment strategies. It is far more prudent to structure the portfolio based on what is achievable, rather than what is desirable.”

“It is therefore imperative that the retirement boards, along with the appointed and elected officials, do what is necessary to get the financial house of the state’s pension funds in order. And that must begin with adopting realistic investment return assumptions,” Treasurer Nappier said.

“This realism, however, comes at a price,” Treasurer Nappier said. “States like Connecticut that are facing the grimmest budget forecasts in a generation are straining under the pressure, and the necessary increase in general fund pension contributions will require deeper cuts to other budget line items.. I believe that there is a path forward, however. With a pragmatic phase-in of the impact of a more realistic investment return assumption, coupled with the commitment to pay for it, we can continue to invest our pension assets in a way that will help the State meet its pension obligations and minimize impacts to our taxpayers.”

CRPTF Market Value at \$29.1 Billion; Asset Class Investment Performance Ranges Up To 11.51 Percent

For the total CRPTF, market value stood at \$29.1 billion as of June 30, after payment of pension benefits, fees and expenses, down from \$29.7 billion a year earlier. The TERF and SERF jointly had a total market value of approximately \$26.1 billion as of June 30. The two funds together represent 90 percent of the CRPTF.

The strongest June 30 investment performances at the asset class level were realized in the private investment and real estate portfolios. For Fiscal Year 2016, the Real Estate Fund returned 11.51 percent, and the Private Investment Fund returned 8.87 percent. The lowest performing asset classes included the Developed Markets International Stock Fund at -7.09 percent and the Emerging Markets International Stock Fund at -7.15 percent. The remaining asset classes performed at -5.32 to 6.01 percent.

“Our performance returns reflect a deliberate asset allocation strategy which centers on diversification to deliver market-level, long-term risk-adjusted returns with reduced volatility. As part of our ongoing efforts, we continuously review our portfolio structure and will take steps to position the portfolio for a more muted market environment,” Treasurer Nappier said.

In addition to TERF and SERF, the Connecticut Retirement Plans and Trust Funds is comprised of assets held on behalf of the Connecticut Municipal Employees’ Retirement Fund; Probate Court Retirement Fund; State Judges’ Retirement Fund; State’s Attorneys’ Retirement Fund; Soldiers’ Sailors’ & Marines’ Fund; Endowment for the Arts; Agricultural College Fund; Ida Eaton Cotton Fund; Andrew Clark Fund; School Fund; Hopmead Fund; Police & Fireman’s Survivors’ Benefit Fund; and State of Connecticut Other Post-Employment Benefits Trust Fund. All together, these additional funds make up roughly 10 percent, or \$3 billion, of the CRPTF.

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