

State of Connecticut

DENISE L. NAPIER
TREASURER



Hartford

April 21, 2016

Journal Inquirer

To The Editor:

The Journal Inquirer editorial, "State should review use of hedge fund investments," takes the reader's eye off the ball by portraying all hedge funds as nothing more than a speculative gamble. As principal fiduciary of the Connecticut Retirement Plans and Trust Funds ("CRPTF"), let me take a moment to set the record straight.

First, the CRPTF consistently monitors performance of all its assets. It began a strategic review earlier this year of our hedge fund portfolio since inception, assisted by Cliffwater Associates, our alternative assets consultant. This is not a knee jerk reaction to recent news about a few of our pension fund peers casting a vote of no confidence in the efficacy of hedge funds, but rather we have reached a point in our program where our performance experience has been long enough to revisit the strategy. We have given it several years, and now is the time to say, 'Are the stated goals of the portfolio established at inception being met and what is the likelihood the goals will be achieved in the future?'

Second, the real key to a successful hedge fund allocation is having a clear vision of what role hedge funds are expected to play in the portfolio. The decision to invest with hedge funds was part of a carefully evaluated strategy. The CRPTF invests in alternative strategies such as hedge funds in order to reduce risk, enhance overall portfolio returns and protect against inflation over the long term under a variety of market conditions.

In fact, as the name implies, hedge funds should be used in an institutional portfolio to hedge against market risks by reducing volatility through diversification.

Endorsement of the CRPTF's successful hedge fund strategy has come from *Institutional Investor* magazine, a leading national trade journal, which twice has named CRPTF one of the top hedge funds among its peers for its performance innovation, achievements and contributions to the industry. It is worth noting that our hedge fund portfolio outperformed its customized benchmark by 442 basis points annually since the program's inception.

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Although a top ranking by an independent reviewer is gratifying, in the final analysis, here at the Connecticut Treasury we judge performance against the unique characteristics of the CPRTF such as funding policy, the demographic profile of the people we serve and liquidity requirements to ensure funds are available to pay benefits both now and in the future.

As we complete our hedge fund portfolio review, investment decisions, as is the case with all investment decisions made by my administration, will be based upon hard, relevant data and what is in the best interest of Connecticut's pension funds, its beneficiaries and taxpayers rather than a "me too" reaction in response to actions taken by other public institutional investors.

Sincerely,



Denise L. Nappier
State Treasurer