

CONNECTICUT HIGHER EDUCATION TRUST

DIRECT PLAN

Financial Statements

Including

Supplemental Information

June 30, 2017



CONNECTICUT HIGHER EDUCATION TRUST
DIRECT PLAN
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June 30, 2017

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Report of Independent Auditors

To the Trustee of the Connecticut Higher Education Trust - Direct Plan:

We have audited the accompanying financial statements of the Connecticut Higher Education Trust - Direct Plan (the "Direct Plan"), which comprise the statement of fiduciary net position as of June 30, 2017 and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Direct Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Direct Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Connecticut Higher Education Trust - Direct Plan, as of June 30, 2017, and the changes in its position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.



Other Matter

The accompanying management's discussion and analysis on pages 4 through 6 are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Matter

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Direct Plan's basic financial statements. The accompanying supplemental information of the statements of fiduciary net position on pages 15 through 19, statements of changes in fiduciary net position on pages 21 through 25 and financial highlights on pages 27 through 31 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplemental information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2017 on our consideration of the Direct Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Direct Plan's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

Baltimore, Maryland
August 18, 2017

**CONNECTICUT HIGHER EDUCATION TRUST
DIRECT PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)**

As Plan manager of the Connecticut Higher Education Trust – Direct Plan (the “Direct Plan”), TIAA-CREF Tuition Financing, Inc. (“TFI”) offers readers of the Direct Plan’s financial statements this discussion and analysis of the financial performance for the fiscal year ended June 30, 2017. Readers should consider the information presented in this section in conjunction with the Direct Plan’s financial statements and notes to financial statements. The Direct Plan is comprised of 14 investment options (the “Options”) in which account owners (“Account Owners”) may invest.

Financial Highlights

During the year ended June 30, 2017, the Options within the Direct Plan posted returns as follows:

<u>Conservative Managed Allocation Option</u>		<u>Aggressive Managed Allocation Option</u>	
Ages 0-3	11.56%	Ages 0-3	17.55%
Ages 4-7	9.32	Ages 4-7	15.05
Ages 8-11	7.18	Ages 8-11	12.97
Ages 12-14	5.52	Ages 12-14	11.43
Ages 15-17	3.72	Ages 15-17	10.06
Ages 18 & Over	1.74	Ages 18 & Over	6.86
 <u>Moderate Managed Allocation Option</u>		 <u>Multi-Fund Investment Options</u>	
Ages 0-3	14.69%	Global Equity Index Option	19.58%
Ages 4-7	12.33	Global Tactical Asset Allocation Option	9.67
Ages 8-11	9.94	International Equity Index Option	19.85
Ages 12-14	8.34	Active Global Equity Option	20.50
Ages 15-17	6.75	U.S. Equity Index Option	18.32
Ages 18 & Over	5.06	High Equity Balanced Option	15.55
		Active Fixed-Income Option	3.97
		Social Choice Option	18.65
		Index Fixed-Income Option	(0.67)
		Money Market Option	0.30
		Principal Plus Interest Option	1.68

The Direct Plan received \$91.2 million in net contributions from Account Owners during the year ended June 30, 2017.

The Direct Plan earned \$55.4 million from investment income and paid out \$3.1 million for operating expenses during the year ended June 30, 2017.

Overview of the Financial Statements

The Direct Plan’s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

This report consists of two parts: Management’s Discussion and Analysis (this section) and the basic financial statements. The basic financial statements are comprised of a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position, and Notes to Financial Statements that explain the information in the financial statements and provide more detailed information.

The Statement of Fiduciary Net Position presents information on the Direct Plan’s assets and liabilities, with the difference between the two reported as net position as of June 30, 2017. This statement, along with all of the Direct Plan’s financial statements, is prepared using the accrual basis of accounting. Contributions are recognized when enrollment in the Direct Plan is finalized; subsequent subscriptions and redemptions are recognized on trade date; expenses and liabilities are recognized when services are provided, regardless of when cash is disbursed.

The Statement of Changes in Fiduciary Net Position presents information showing how the Direct Plan’s assets changed during the year. Changes in net position are reported as soon as the underlying event giving rise to the current change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal years.

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

This report presents the operating results and financial status of the Direct Plan, which the State of Connecticut reports as a fiduciary fund. Fiduciary fund reporting is used to account for resources held for the benefit of parties outside the governmental entity.

Financial Analysis

Net position - The following is a condensed Statement of Fiduciary Net Position as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Investments	\$ 2,843,586,663	\$ 2,501,382,675
Cash	7,596	734
Receivables	4,716,820	3,725,916
Total Assets	<u>2,848,311,079</u>	<u>2,505,109,325</u>
Payables	4,989,187	5,390,963
Total Liabilities	<u>4,989,187</u>	<u>5,390,963</u>
Total Net Position	<u>\$ 2,843,321,892</u>	<u>\$ 2,499,718,362</u>

Net position represents total contributions from Account Owners, plus the net increases (decreases) from operations, less withdrawals and expenses.

Investments are approximately 100% of total net position, and consist of the Options, each of which invests in varying percentages in multiple TIAA-CREF Funds and/or other third-party mutual funds, or a funding agreement ("Funding Agreement") issued by TIAA-CREF Life Insurance Company to the Connecticut Higher Education Trust. Receivables consist of securities sold, contributions, and accrued income. Liabilities consist mainly of payables for securities purchased, withdrawals, and accrued expenses.

Changes in net position - The following are condensed Statements of Changes in Fiduciary Net Position for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Additions:		
Subscriptions	\$ 960,028,855	\$ 853,035,412
Investment Income	55,397,894	49,577,969
Net increase in fair value of investments	200,099,531	—
Total Additions	<u>1,215,526,280</u>	<u>902,613,381</u>
Deductions:		
Redemptions	(868,840,702)	(765,961,569)
Direct Plan manager fee	(2,844,966)	(3,146,949)
Administrative fee	(237,082)	(211,892)
Net decrease in fair value of investments	—	(49,126,310)
Total Deductions	<u>(871,922,750)</u>	<u>(818,446,720)</u>
Changes in Net Position	343,603,530	84,166,661
Net position - beginning of year	2,499,718,362	2,415,551,701
Net position - end of year	<u>\$ 2,843,321,892</u>	<u>\$ 2,499,718,362</u>

CONNECTICUT HIGHER EDUCATION TRUST – DIRECT PLAN
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2017

ASSETS

Cash	\$	7,596
Investments, at value (Cost: \$2,379,956,650)		2,843,586,663
Dividends and interest receivable		2,142,811
Receivable from securities transactions		752,855
Receivable from Direct Plan units sold		1,821,154
TOTAL ASSETS		<u>2,848,311,079</u>

LIABILITIES

Overdraft payable		25,995
Accrued Direct Plan manager fee		254,173
Accrued administrative fee		21,181
Payable for securities transactions		3,310,829
Payable for Direct Plan units redeemed		1,377,009
TOTAL LIABILITIES		<u>4,989,187</u>

NET POSITION

Held in trust for Account Owners in the Direct Plan	\$	<u>2,843,321,892</u>
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See notes to financial statements

**CONNECTICUT HIGHER EDUCATION TRUST – DIRECT PLAN
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017**

ADDITIONS

Subscriptions	\$	960,028,855
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Investment income:

Interest		4,181,332
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Dividends		51,216,562
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Total investment income		<u>55,397,894</u>
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Net increase in fair value of investments		<u>200,099,531</u>
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Total additions		<u>1,215,526,280</u>
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DEDUCTIONS

Redemptions		(868,840,702)
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Direct Plan manager fee		(2,844,966)
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Administrative fee		(237,082)
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Total deductions		<u>(871,922,750)</u>
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Changes in net position		343,603,530
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Net position – beginning of year		<u>2,499,718,362</u>
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Net position – end of year	\$	<u>2,843,321,892</u>
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CONNECTICUT HIGHER EDUCATION TRUST – DIRECT PLAN

NOTES TO FINANCIAL STATEMENTS

Note 1 – Organization and Significant Accounting Policies

The Connecticut Higher Education Trust - Direct Plan (the "Direct Plan") is designed to help people save for the costs of higher education. The Direct Plan is administered by the Treasurer of the State of Connecticut, as the trustee (the "Trustee") of the Connecticut Higher Education Trust (the "Trust"). The Trustee has the authority to establish, develop, implement and maintain the Direct Plan and to make and enter into contracts to service the Direct Plan. TIAA-CREF Tuition Financing, Inc. ("TFI"), a wholly owned, direct subsidiary of Teachers Insurance and Annuity Association of America ("TIAA"), and the Trustee have entered into a management agreement ("Management Agreement") under which TFI serves as Direct Plan manager. The Direct Plan is intended to meet the requirements of a qualified tuition program under Section 529 of the Internal Revenue Code ("Code"). Investment options (the "Options" or individually "Option"), allocations and fees, as approved by the Trustee, are described in the current Disclosure Booklet for the Direct Plan.

The assets in the Principal Plus Interest Option are allocated to a funding agreement ("Funding Agreement") issued by TIAA-CREF Life Insurance Company ("TIAA Life"), an affiliate of TFI, to the Trust, as policyholder. The Funding Agreement provides for a return of principal plus a guaranteed rate of interest and allows for the possibility that additional interest may be credited as declared periodically by TIAA Life.

Teachers Advisors, LLC ("Advisors"), an affiliate of TFI, is registered with the Securities and Exchange Commission as an investment adviser and provides investment advisory services to the TIAA-CREF Funds (the "Funds"). TIAA-CREF Individual & Institutional Services, LLC ("Services"), a wholly owned, direct subsidiary of TIAA, serves as the primary distributor and underwriter for the Direct Plan and provides certain underwriting and distribution services in furtherance of TFI's marketing plan for the Direct Plan. Services is registered as a broker-dealer under the Securities Exchange Act of 1934 and is a member of the Financial Industry Regulatory Authority.

The accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB") which may require the use of estimates made by management and the evaluation of subsequent events. Actual results may differ from those estimates. The following is a summary of the significant accounting policies consistently followed by the Direct Plan.

Investment income: Securities transactions are accounted for as of the trade date for financial reporting purposes. Interest income is recorded as earned. Dividend income and capital gain distributions from the underlying mutual funds are recorded on the ex-dividend date. Income distributions from underlying mutual funds are included in total investment income and gain distributions are included in net increase in fair value of investments. Realized gains and losses are based upon the specific identification method.

Income tax: No provision for federal income tax has been made. The Direct Plan is designed to constitute a qualified tuition program under Section 529 of the Code and does not expect to have any unrelated business income subject to tax.

Units: The beneficial interests for each account owner ("Account Owner") in the Options are represented by Direct Plan units. Subscriptions and redemptions are recorded upon receipt of Account Owner's instructions in good order, based on the next determined net position value per unit ("Unit Value"). Unit Values for each Option are determined at the close of business of the New York Stock Exchange. The Unit Value for financial reporting purposes may differ from the Unit Value for processing transactions. The Unit Value for financial reporting purposes includes security and shareholder transactions through the date of the report. There are no distributions of net investment gains or net investment income to the Option's Account Owners or beneficiaries.

Subscriptions and redemptions: Subscriptions on the Statement of Changes in Fiduciary Net Position include any contributions to the Direct Plan made by Account Owners and any exchanges within the Direct Plan that result in a reinvestment of assets. Redemptions on the Statement of Changes in Fiduciary Net Position include any withdrawals from the Direct Plan made by Account Owners and any exchanges within the Direct Plan that result in a reinvestment of assets.

New accounting pronouncement: In May 2017, GASB issued Statement No. 85, *Omnibus* ("Statement"). The Statement addresses practice issues that have been identified during implementation and application of certain GASB statements including fair value measurement. The Statement is effective for financial statements for periods beginning after June 15, 2017. The Direct Plan adopted the Statement for this annual report. The adoption of the Statement did not have any impact on the Direct Plan's financial statements and notes disclosures.

CONNECTICUT HIGHER EDUCATION TRUST – DIRECT PLAN NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 – Valuation of Investments

Certain investments are valued at fair value utilizing various valuation methods. GASB establishes a hierarchy that prioritizes market inputs to fair valuation methods. The three levels of inputs are:

- Level 1 – quoted prices in active markets for identical securities
- Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, credit spreads, etc.)
- Level 3 – significant unobservable inputs (including the Direct Plan's own assumptions in determining the fair value of investments)

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors including, for example, the type of security, whether the security is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the security. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

A description of the valuation techniques applied to the Direct Plan's major categories of investments follows:

Investments in registered investment companies: These investments are valued at their published net asset value on the valuation date. These investments are categorized in Level 1 of the fair value hierarchy.

Funding Agreement: The Funding Agreement, to which the Principal Plus Interest Option allocates assets, is considered a nonparticipating interest-earning investment contract and is accounted for at cost. Because the Funding Agreement is valued at cost, it is not included in the fair value hierarchy.

Note 3 – Direct Plan Fees

Each Option (with the exception of the Principal Plus Interest Option) pays TFI a Direct Plan manager fee of 0.12% of the average daily net assets of the Option. The Direct Plan manager fee is subject to reductions if total assets in the Direct Plan reach certain levels. In addition, Advisors is paid investment management fees on the underlying investments in the Funds.

The Principal Plus Interest Option does not pay a Direct Plan manager fee or an administrative fee to the Trustee. TIAA Life, the issuer of the funding agreement in which this Option invests and an affiliate of TFI, makes payments to TFI. As a result, the participant does not incur any expense related to this option.

For its services administering the Direct Plan, each Option (with the exception of the Principal Plus Interest Option) pays to the Trustee an administrative fee at an annual rate of 0.01% of the average daily net assets of the Option. TIAA Life also pays the Trustee a fee equal to 0.01% of the average daily net assets held by the Principal Plus Interest Option. The fee is deposited in an administrative fund held by the Trustee and then used to pay certain administrative expenses.

Effective August 1, 2011, TFI and the Trustee have agreed to voluntarily waive the Money Market Option's Direct Plan manager fee and administrative fee, respectively, in an attempt to maintain at least a 0.00% return for the Option. TFI and the Trustee may discontinue the waiver at any time without notice. For the year ended June 30, 2017, no fees were waived for the Money Market Option.

Note 4 – Investments

Cash deposits: Cash deposits at June 30, 2017 were covered by federal depository insurance coverage.

Investments: As of June 30, 2017, net unrealized appreciation (depreciation) of portfolio investments was \$463,630,013 consisting of gross unrealized appreciation of \$471,862,133 and gross unrealized depreciation of \$(8,232,120).

CONNECTICUT HIGHER EDUCATION TRUST – DIRECT PLAN
NOTES TO FINANCIAL STATEMENTS (continued)

At June 30, 2017, the Direct Plan’s investments consist of the following:

	<u>Units</u>	<u>Cost</u>	<u>Value</u>
TIAA-CREF Funds (Institutional Class):			
Bond Index Fund	26,719,026	\$ 281,641,749	\$ 289,634,245
Emerging Markets Equity Index Fund	2,717,809	26,599,994	28,835,956
Equity Index Fund	30,692,008	303,691,231	554,604,575
Growth & Income Fund	710,222	7,895,358	9,438,846
High-Yield Fund	505,354	4,875,762	4,972,684
Inflation-Linked Bond Fund	13,207,556	141,163,195	150,962,359
International Equity Index Fund	26,416,236	418,867,280	501,908,476
Mid-Cap Growth Fund	592,664	9,723,053	13,168,996
Mid-Cap Value Fund	609,083	10,310,533	14,575,347
Money Market Fund	102,069,075	102,069,076	102,069,076
Real Estate Securities Fund	5,970,837	64,659,830	94,518,356
S&P 500 Index Fund	3,658,389	45,189,575	99,361,850
Short-Term Bond Fund	14,786,805	153,029,393	152,895,563
Social Choice Equity Fund	2,484,227	35,243,502	44,716,079
BlackRock Strategic Income Opportunities Fund (Institutional Class)	24,853,193	250,299,695	246,295,143
DFA Emerging Markets Core Equity Portfolio (Institutional Class)	4,392,178	80,524,691	90,215,331
GMO Benchmark-Free Allocation Series Fund - R6 Class	254,768	2,502,412	2,629,206
GMO International Equity Allocation Fund - R6 Class	845,467	8,026,402	8,260,210
Harding Loevner International Equity Portfolio (Institutional Class)	624,886	11,382,752	13,066,360
MetWest Total Return Bond Fund (Institutional Class)	1,103,107	12,061,725	11,748,094
State Street Institutional Small Cap Equity Fund (Institutional Class)	902,434	17,844,680	17,949,421
T. Rowe Price Inst. Large-Cap Growth Fund (Institutional Class)	151,344	3,585,400	5,294,030
T. Rowe Price Inst. Large-Cap Value Fund (Institutional Class)	211,439	4,293,416	4,738,344
Templeton Global Bond Fund (Advisor Class)	9,183,095	114,506,102	111,758,272
TIAA-CREF Life Insurance Company: Funding Agreement	17,120,876	269,969,844	269,969,844
		<u>\$ 2,379,956,650</u>	<u>\$ 2,843,586,663</u>

Note 5 – Investment Risks

Certain investments are subject to a variety of investment risks based on the amount of risk in the underlying funds. GASB requires that entities disclose certain essential risk information about deposits and investments. All of the Direct Plan’s Options are uninsured and unregistered and are held by a custodian in the Direct Plan’s name.

Custodial credit risk: Custodial credit risk is the risk that in the event of a failure, the Direct Plan deposits and investments may not be returned. An Account Owner has an investment in an Option and not a direct investment in any underlying mutual fund or other investment vehicle to which funds in that Option may be allocated. Because of this ownership structure, the custodial credit risk is mitigated.

Investment policy: The Direct Plan does not have specific investment policies which address credit, interest rate, foreign currency or custodial credit risk. The Direct Plan’s Options are managed based on specific investment objectives and strategies which are disclosed in the current Direct Plan Disclosure Booklet.

CONNECTICUT HIGHER EDUCATION TRUST – DIRECT PLAN
NOTES TO FINANCIAL STATEMENTS (concluded)

Credit risk: The underlying mutual funds investing primarily in fixed income securities are subject to credit risk. Credit risk refers to the ability of the issuer to make timely payments of interest and principal. The underlying mutual funds do not carry a formal credit quality rating. The underlying Funding Agreement is a guaranteed insurance product issued by TIAA Life. TIAA Life had a Standard & Poor’s credit rating of AA+ at June 30, 2017.

Interest rate risk: Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. At June 30, 2017, the average maturities for the underlying fixed income mutual funds are as follows:

<u>Investment</u>	<u>Value</u>	<u>Weighted Average Maturity</u>
TIAA-CREF Funds (Institutional Class):		
Bond Index Fund	\$ 289,634,245	7.96 years
High-Yield Fund	4,972,684	6.87 years
Inflation-Linked Bond Fund	150,962,359	5.79 years
Short-Term Bond Fund	152,895,563	3.17 years
BlackRock Strategic Income Opportunities Fund (Institutional Class)	246,295,143	7.07 years
GMO Benchmark-Free Allocation Series Fund – R6 Class	2,629,206	N/A
MetWest Total Return Bond Fund (Institutional Class)	11,748,094	7.16 years
Templeton Global Bond Fund (Advisor Class)	111,758,272	3.77 years

Foreign currency risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments in foreign securities. The Direct Plan does not have any direct investment in foreign securities. Certain Direct Plan Options allocate assets to underlying mutual funds that are exposed to foreign currency risk. At June 30, 2017, the value of investments in underlying mutual funds that significantly invest in foreign denominated contracts are as follows:

<u>Investment</u>	<u>Value</u>
TIAA-CREF Funds (Institutional Class):	
Emerging Markets Equity Index Fund	\$ 28,835,956
International Equity Index Fund	501,908,476
DFA Emerging Markets Core Equity Portfolio (Institutional Class)	90,215,331
GMO Benchmark-Free Allocation Series Fund – R6 Class	2,629,206
GMO International Equity Allocation Series Fund – R6 Class	8,260,210
Harding Loevner International Equity Portfolio (Institutional Class)	13,066,360
Templeton Global Bond Fund (Advisor Class)	111,758,272

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SUPPLEMENTAL INFORMATION

The following information is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Connecticut Higher Education Trust – Direct Plan (“Direct Plan”). It shows financial information relating to the investment options, which are included in the Direct Plan during the year ended June 30, 2017.

**CONNECTICUT HIGHER EDUCATION TRUST – DIRECT PLAN
STATEMENTS OF FIDUCIARY NET POSITION
JUNE 30, 2017**

**Conservative Managed Allocation Option
Age Bands Within the Conservative Managed Allocation Option**

	Ages 0-3	Ages 4-7	Ages 8-11	Ages 12-14	Ages 15-17	Ages 18 & Over	Total
ASSETS							
Investments, at value:							
TIAA-CREF Funds (Institutional Class):							
Bond Index Fund	\$ 743,897	\$ 2,355,766	\$ 2,575,950	\$ 2,263,534	\$ 3,052,793	\$ 2,969,746	\$13,961,686
Equity Index Fund	1,725,392	3,122,841	1,814,005	1,350,130	1,180,647	—	9,193,015
Inflation-Linked Bond Fund	468,100	1,339,503	1,463,295	1,297,148	1,782,248	1,739,183	8,089,477
International Equity Index Fund	1,428,586	2,325,840	1,341,091	944,416	785,595	—	6,825,528
Money Market Fund	—	—	—	626,451	2,086,588	3,875,905	6,588,944
Real Estate Securities Fund	428,508	684,310	407,893	289,480	236,975	—	2,047,166
Short-Term Bond Fund	—	—	—	1,560,719	5,145,706	9,320,833	16,027,258
SUBTOTAL	4,794,483	9,828,260	7,602,234	8,331,878	14,270,552	17,905,667	62,733,074
BlackRock Strategic Income Opportunities Fund	725,859	2,376,163	2,588,834	2,284,628	3,094,347	2,920,946	13,990,777
DFA Emerging Market Core Equity Portfolio	274,922	569,790	321,652	223,355	188,227	—	1,577,946
Templeton Global Bond Fund	297,361	1,082,539	1,180,363	1,061,265	1,467,105	1,389,991	6,478,624
SUBTOTAL	1,298,142	4,028,492	4,090,849	3,569,248	4,749,679	4,310,937	22,047,347
TOTAL INVESTMENTS	6,092,625	13,856,752	11,693,083	11,901,126	19,020,231	22,216,604	84,780,421
Cash	62	—	—	—	—	—	62
Dividends and interest receivable	5,472	15,235	14,835	15,465	26,978	26,669	104,654
Receivable from Direct Plan units sold	5,560	6,920	4,139	7,404	10,432	9,267	43,722
TOTAL ASSETS	6,103,719	13,878,907	11,712,057	11,923,995	19,057,641	22,252,540	84,928,859
LIABILITIES							
Accrued Direct Plan manager fee	635	1,365	1,139	1,183	2,041	1,940	8,303
Accrued administrative fee	53	114	95	99	170	162	693
Payable for securities transactions	11,094	22,154	18,974	22,869	37,410	32,684	145,185
Payable for Direct Plan units redeemed	—	—	—	—	—	3,252	3,252
TOTAL LIABILITIES	11,782	23,633	20,208	24,151	39,621	38,038	157,433
NET POSITION	\$ 6,091,937	\$ 13,855,274	\$ 11,691,849	\$ 11,899,844	\$ 19,018,020	\$ 22,214,502	\$84,771,426
UNITS OUTSTANDING	394,467	953,037	851,511	929,431	1,584,974	1,996,161	
NET POSITION VALUE PER UNIT	\$15.44	\$14.54	\$13.73	\$12.80	\$12.00	\$11.13	
INVESTMENTS AT COST	\$ 4,893,322	\$ 12,727,233	\$ 10,893,160	\$ 11,207,523	\$ 18,404,241	\$ 22,110,566	\$80,236,045

**CONNECTICUT HIGHER EDUCATION TRUST – DIRECT PLAN
STATEMENTS OF FIDUCIARY NET POSITION
JUNE 30, 2017**

**Moderate Managed Allocation Option
Age Bands Within the Moderate Managed Allocation Option**

	<u>Ages 0-3</u>	<u>Ages 4-7</u>	<u>Ages 8-11</u>	<u>Ages 12-14</u>	<u>Ages 15-17</u>	<u>Ages 18 & Over</u>	<u>Total</u>
ASSETS							
Investments, at value:							
TIAA-CREF Funds (Institutional Class):							
Bond Index Fund	\$ 1,902,317	\$ 10,484,857	\$ 32,533,892	\$ 46,506,175	\$ 50,881,987	\$ 32,770,860	\$175,080,088
Equity Index Fund	12,149,357	31,001,003	52,638,346	51,771,320	51,969,166	33,663,047	233,192,239
Inflation-Linked Bond Fund	573,942	5,971,454	19,323,420	27,539,353	27,537,638	19,538,187	100,483,994
International Equity Index Fund	9,667,143	23,646,028	41,350,781	36,046,461	37,421,034	22,933,426	171,064,873
Money Market Fund	—	—	—	—	16,907,342	36,200,911	53,108,253
Real Estate Securities Fund	2,575,779	6,399,826	12,818,813	13,146,040	13,027,705	8,354,319	56,322,482
Short-Term Bond Fund	—	—	—	—	43,583,282	85,594,623	129,177,905
SUBTOTAL	26,868,538	77,503,168	158,665,252	175,009,349	241,328,154	239,055,373	918,429,834
BlackRock Strategic Income Opportunities Fund	1,901,773	10,214,904	32,486,991	46,426,494	50,949,116	32,834,453	174,813,731
DFA Emerging Market Core Equity Portfolio	2,399,087	6,506,621	5,861,116	6,294,680	7,221,383	4,859,399	33,142,286
Templeton Global Bond Fund	781,278	3,732,107	12,642,608	19,113,693	22,334,981	15,387,366	73,992,033
SUBTOTAL	5,082,138	20,453,632	50,990,715	71,834,867	80,505,480	53,081,218	281,948,050
TOTAL INVESTMENTS	31,950,676	97,956,800	209,655,967	246,844,216	321,833,634	292,136,591	1,200,377,884
Cash	1,109	60	—	—	—	1,015	2,184
Dividends and interest receivable	23,730	89,868	204,799	273,929	373,029	314,718	1,280,073
Receivable from securities transactions	—	—	—	—	—	157,101	157,101
Receivable from Direct Plan units sold	179,587	37,646	44,822	50,616	49,923	118,847	481,441
TOTAL ASSETS	32,155,102	98,084,374	209,905,588	247,168,761	322,256,586	292,728,272	1,202,298,683
LIABILITIES							
Overdraft payable	—	—	603	392	—	—	995
Accrued Direct Plan manager fee	3,442	9,910	21,466	24,505	32,143	27,234	118,700
Accrued administrative fee	287	826	1,789	2,042	2,678	2,269	9,891
Payable for securities transactions	204,426	125,064	247,373	323,681	380,338	314,718	1,595,600
Payable for Direct Plan units redeemed	—	2,000	1,640	464	42,615	276,948	323,667
TOTAL LIABILITIES	208,155	137,800	272,871	351,084	457,774	621,169	2,048,853
NET POSITION	\$ 31,946,947	\$ 97,946,574	\$ 209,632,717	\$ 246,817,677	\$ 321,798,812	\$ 292,107,103	\$1,200,249,830
UNITS OUTSTANDING	1,341,807	4,822,182	10,185,153	12,026,055	16,960,160	16,542,729	
NET POSITION VALUE PER UNIT	\$23.81	\$20.31	\$20.58	\$20.52	\$18.97	\$17.66	
INVESTMENTS AT COST	\$ 19,381,475	\$ 67,149,160	\$ 161,260,614	\$ 203,821,889	\$ 282,346,661	\$ 266,135,105	\$1,000,094,904

Aggressive Managed Allocation Option
Age Bands Within the Aggressive Managed Allocation Option

	Ages 0-3	Ages 4-7	Ages 8-11	Ages 12-14	Ages 15-17	Ages 18 & Over	Total
ASSETS							
Investments, at value:							
TIAA-CREF Funds (Institutional Class):							
Bond Index Fund	\$ —	\$ 4,292,002	\$ 12,223,410	\$ 10,882,244	\$ 11,717,858	\$ 6,344,434	\$45,459,948
Equity Index Fund	18,458,052	37,375,228	44,600,349	25,692,857	18,619,110	6,720,481	151,466,077
Inflation-Linked Bond Fund	—	2,127,188	6,627,787	5,844,997	6,682,623	3,753,219	25,035,814
International Equity Index Fund	15,370,777	30,318,128	36,038,061	20,376,785	14,422,702	5,026,098	121,552,551
Money Market Fund	—	—	—	—	—	2,883,374	2,883,374
Real Estate Securities Fund	3,994,970	9,377,237	10,538,758	6,181,353	4,433,574	1,622,816	36,148,708
Short-Term Bond Fund	—	—	—	—	—	7,690,400	7,690,400
SUBTOTAL	37,823,799	83,489,783	110,028,365	68,978,236	55,875,867	34,040,822	390,236,872
BlackRock Strategic Income Opportunities Fund	—	4,286,379	12,304,438	10,917,655	11,812,799	6,360,800	45,682,071
DFA Emerging Market Core Equity Portfolio	3,538,639	6,521,851	7,457,126	4,100,908	3,127,951	1,186,998	25,933,473
Templeton Global Bond Fund	—	1,344,235	5,260,506	4,691,235	5,121,083	2,908,748	19,325,807
SUBTOTAL	3,538,639	12,152,465	25,022,070	19,709,798	20,061,833	10,456,546	90,941,351
TOTAL INVESTMENTS	41,362,438	95,642,248	135,050,435	88,688,034	75,937,700	44,497,368	481,178,223
Cash	157	4,025	—	70	1,050	—	5,302
Dividends and interest receivable	19,348	58,224	103,927	77,517	75,795	47,807	382,618
Receivable from securities transactions	—	22,337	—	—	—	22,768	45,105
Receivable from Direct Plan units sold	52,986	93,288	93,167	25,359	29,860	28,037	322,697
TOTAL ASSETS	41,434,929	95,820,122	135,247,529	88,790,980	76,044,405	44,595,980	481,933,945
LIABILITIES							
Accrued Direct Plan manager fee	4,356	9,657	13,373	8,624	7,280	4,054	47,344
Accrued administrative fee	363	805	1,114	719	607	338	3,946
Payable for securities transactions	72,491	58,224	196,954	102,876	106,204	47,807	584,556
Payable for Direct Plan units redeemed	—	119,624	140	—	601	40,804	161,169
TOTAL LIABILITIES	77,210	188,310	211,581	112,219	114,692	93,003	797,015
NET POSITION	\$ 41,357,719	\$ 95,631,812	\$ 135,035,948	\$ 88,678,761	\$ 75,929,713	\$ 44,502,977	\$481,136,930
UNITS OUTSTANDING	2,531,607	6,015,236	8,470,273	5,580,731	4,889,622	3,140,940	
NET POSITION VALUE PER UNIT	\$16.34	\$15.90	\$15.94	\$15.89	\$15.53	\$14.17	
INVESTMENTS AT COST	\$ 26,175,385	\$ 70,660,931	\$ 113,142,942	\$ 75,850,677	\$ 66,789,898	\$ 41,216,386	\$393,836,219

**CONNECTICUT HIGHER EDUCATION TRUST – DIRECT PLAN
STATEMENTS OF FIDUCIARY NET POSITION
JUNE 30, 2017**

Multi-Fund Investment Options

	Global Equity Index Option	Global Tactical Asset Allocation Option	International Equity Index Option	Active Global Equity Option	U.S. Equity Index Option	High Equity Balanced Option
ASSETS						
Investments, at value:						
TIAA-CREF Funds (Institutional Class):						
Bond Index Fund	\$ —	\$ —	\$ —	\$ —	\$ —	37,993,169
Emerging Markets Equity Index Fund	28,835,956	—	—	—	—	—
Equity Index Fund	95,982,926	—	—	—	64,770,318	—
Growth & Income Fund	—	—	—	9,438,846	—	—
High-Yield Fund	—	—	—	—	—	—
Inflation-Linked Bond Fund	—	—	—	—	—	9,319,550
International Equity Index Fund	92,990,215	—	6,108,193	—	—	103,367,116
Mid-Cap Growth Fund	—	—	—	660,966	—	12,508,030
Mid-Cap Value Fund	—	—	—	685,634	—	13,889,713
Money Market Fund	—	—	—	—	—	—
S&P 500 Index Fund	—	—	—	—	—	99,361,850
Social Choice Equity Fund	—	—	—	—	—	—
SUBTOTAL	217,809,097	—	6,108,193	10,785,446	64,770,318	276,439,428
BlackRock Strategic Income Opportunities Fund	—	—	—	—	—	—
DFA Emerging Market Core Equity Portfolio	—	—	—	—	—	29,561,626
GMO Benchmark-Free Allocation Series Fund – R6	—	2,629,206	—	—	—	—
GMO International Equity Allocation Fund – R6	—	—	—	8,260,210	—	—
Harding Loevner International Equity Portfolio	—	—	—	13,066,360	—	—
MetWest Total Return Bond Fund	—	—	—	—	—	—
State Street Institutional Small Cap Equity Fund	—	—	—	1,913,381	—	16,036,040
T. Rowe Price Inst. Large-Cap Growth Fund	—	—	—	5,294,030	—	—
T. Rowe Price Inst. Large-Cap Value Fund	—	—	—	4,738,344	—	—
Templeton Global Bond Fund	—	—	—	—	—	5,465,847
SUBTOTAL	—	2,629,206	—	33,272,325	—	51,063,513
TIAA-CREF Life Insurance Company:						
Funding Agreement	—	—	—	—	—	—
TOTAL INVESTMENTS	217,809,097	2,629,206	6,108,193	44,057,771	64,770,318	327,502,941
Cash	—	—	—	6	—	—
Dividends and interest receivable	—	—	—	—	—	238,186
Receivable from securities transactions	—	—	51,689	46,452	49,217	3,290
Receivable from Direct Plan units sold	347,173	1,121	2,582	10,431	48,082	64,044
TOTAL ASSETS	218,156,270	2,630,327	6,162,464	44,114,660	64,867,617	327,808,461
LIABILITIES						
Overdraft payable	—	—	—	—	—	25,000
Accrued Direct Plan manager fee	21,490	258	597	4,382	6,336	32,462
Accrued administrative fee	1,791	21	50	365	528	2,705
Payable for securities transactions	319,737	1,121	—	—	—	238,186
Payable for Direct Plan units redeemed	27,436	—	54,270	56,883	97,299	42,334
TOTAL LIABILITIES	370,454	1,400	54,917	61,630	104,163	340,687
NET POSITION	\$ 217,785,816	\$ 2,628,927	\$ 6,107,547	\$ 44,053,030	\$ 64,763,454	\$ 327,467,774
UNITS OUTSTANDING	12,087,478	252,041	558,562	2,523,451	5,359,003	15,088,086
NET POSITION VALUE PER UNIT	\$18.02	\$10.43	\$10.93	\$17.46	\$12.08	\$21.70
INVESTMENTS AT COST	\$ 152,823,024	\$ 2,502,412	\$ 5,526,078	\$ 38,291,332	\$ 57,284,897	\$ 244,664,984

Active Fixed- Income Option	Social Choice Option	Index Fixed- Income Option	Money Market Option	Principal Plus Interest Option	Total
\$ —	\$ —	\$ 17,139,354	\$ —	\$ —	\$55,132,523
—	—	—	—	—	28,835,956
—	—	—	—	—	160,753,244
—	—	—	—	—	9,438,846
4,972,684	—	—	—	—	4,972,684
8,033,524	—	—	—	—	17,353,074
—	—	—	—	—	202,465,524
—	—	—	—	—	13,168,996
—	—	—	—	—	14,575,347
—	—	—	39,488,505	—	39,488,505
—	—	—	—	—	99,361,850
—	44,716,079	—	—	—	44,716,079
13,006,208	44,716,079	17,139,354	39,488,505	—	690,262,628
11,808,564	—	—	—	—	11,808,564
—	—	—	—	—	29,561,626
—	—	—	—	—	2,629,206
—	—	—	—	—	8,260,210
—	—	—	—	—	13,066,360
11,748,094	—	—	—	—	11,748,094
—	—	—	—	—	17,949,421
—	—	—	—	—	5,294,030
—	—	—	—	—	4,738,344
6,495,961	—	—	—	—	11,961,808
30,052,619	—	—	—	—	117,017,663
—	—	—	—	269,969,844	269,969,844
43,058,827	44,716,079	17,139,354	39,488,505	269,969,844	1,077,250,135
12	30	—	—	—	48
78,392	—	34,954	23,934	—	375,466
—	—	400,001	—	—	550,649
15,632	10,232	5,356	63,038	405,603	973,294
43,152,863	44,726,341	17,579,665	39,575,477	270,375,447	1,079,149,592
—	—	—	—	—	25,000
4,262	4,408	1,728	3,903	—	79,826
355	367	144	325	—	6,651
94,024	9,780	34,954	79,049	208,637	985,488
—	453	405,357	7,923	196,966	888,921
98,641	15,008	442,183	91,200	405,603	1,985,886
\$ 43,054,222	\$ 44,711,333	\$ 17,137,482	\$ 39,484,277	\$ 269,969,844	\$1,077,163,706
2,652,232	2,181,595	1,438,570	3,883,652	17,120,876	
\$16.23	\$20.49	\$11.91	\$10.17	\$15.77	
\$ 43,040,522	\$ 35,243,502	\$ 16,954,382	\$ 39,488,505	\$ 269,969,844	\$905,789,482

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**CONNECTICUT HIGHER EDUCATION TRUST – DIRECT PLAN
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017**

**Conservative Managed Allocation Option
Age Bands Within the Conservative Managed Allocation Option**

	Ages 0-3	Ages 4-7	Ages 8-11	Ages 12-14	Ages 15-17	Ages 18 & Over	Total
ADDITIONS							
Subscriptions	\$3,339,383	\$6,234,494	\$6,035,421	\$7,598,556	\$13,415,911	\$15,197,605	\$51,821,370
Increase from investment operations:							
Dividends from underlying funds	140,220	273,203	235,905	240,241	376,474	288,359	1,554,402
Realized gain distributions from underlying funds	14,523	19,914	11,621	9,341	8,999	928	65,326
Net unrealized appreciation on underlying fund shares	485,509	809,428	499,553	419,145	401,314	67,813	2,682,762
Net realized gain on investments in underlying fund shares	44,146	—	—	—	—	—	44,146
Net increase from investment operations	684,398	1,102,545	747,079	668,727	786,787	357,100	4,346,636
TOTAL ADDITIONS	\$4,023,781	\$7,337,039	\$6,782,500	\$8,267,283	\$14,202,698	\$15,554,705	\$56,168,006
DEDUCTIONS							
Redemptions	\$3,695,241	\$2,863,783	\$3,348,386	\$5,657,727	\$10,610,370	\$9,495,447	\$35,670,954
Expenses:							
Direct Plan manager fee	7,271	14,023	11,816	12,959	22,112	18,823	87,004
Administrative fee	606	1,169	985	1,080	1,843	1,569	7,252
Total expenses	7,877	15,192	12,801	14,039	23,955	20,392	94,256
Net realized loss on investments in underlying fund shares	—	21,391	40,648	67,573	70,113	75,173	274,898
TOTAL DEDUCTIONS	\$3,703,118	\$2,900,366	\$3,401,835	\$5,739,339	\$10,704,438	\$9,591,012	\$36,040,108
NET POSITION							
Net increase in fiduciary net position	320,663	4,436,673	3,380,665	2,527,944	3,498,260	5,963,693	20,127,898
Beginning of year	5,771,274	9,418,601	8,311,184	9,371,900	15,519,760	16,250,809	64,643,528
End of year	\$6,091,937	\$13,855,274	\$11,691,849	\$11,899,844	\$19,018,020	\$22,214,502	\$84,771,426
UNITS							
Sold	229,698	449,318	455,959	611,310	1,140,205	1,374,958	4,261,448
Redeemed	(252,233)	(204,649)	(253,237)	(454,283)	(896,307)	(863,898)	(2,924,607)
NET INCREASE (DECREASE)	(22,535)	244,669	202,722	157,027	243,898	511,060	1,336,841

**CONNECTICUT HIGHER EDUCATION TRUST – DIRECT PLAN
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017**

**Moderate Managed Allocation Option
Age Bands Within the Moderate Managed Allocation Option**

	Ages 0-3	Ages 4-7	Ages 8-11	Ages 12-14	Ages 15-17	Ages 18 & Over	Total
ADDITIONS							
Subscriptions	\$15,752,742	\$32,692,156	\$61,951,892	\$93,690,629	\$122,465,782	\$130,656,912	\$457,210,113
Increase from investment operations:							
Dividends from underlying funds	713,460	2,205,001	4,904,118	5,676,137	6,903,927	4,893,531	25,296,174
Realized gain distributions from underlying funds	93,473	232,757	421,099	410,149	415,220	243,100	1,815,798
Net unrealized appreciation on underlying fund shares	2,690,204	8,191,974	12,620,675	11,752,714	14,410,843	8,583,444	58,249,854
Net realized gain on investments in underlying fund shares	971,075	707,346	2,242,670	1,698,443	—	—	5,619,534
Net increase from investment operations	4,468,212	11,337,078	20,188,562	19,537,443	21,729,990	13,720,075	90,981,360
TOTAL ADDITIONS	\$20,220,954	\$44,029,234	\$82,140,454	\$113,228,072	\$144,195,772	\$144,376,987	\$548,191,473
DEDUCTIONS							
Redemptions	\$16,540,681	\$39,286,457	\$71,953,106	\$99,725,329	\$125,575,621	\$113,592,137	\$466,673,331
Expenses:							
Direct Plan manager fee	37,945	115,318	249,955	286,612	377,077	303,359	1,370,266
Administrative fee	3,162	9,610	20,829	23,884	31,423	25,280	114,188
Total expenses	41,107	124,928	270,784	310,496	408,500	328,639	1,484,454
Net realized loss on investments in underlying fund shares	—	—	—	—	547,052	809,120	1,356,172
TOTAL DEDUCTIONS	\$16,581,788	\$39,411,385	\$72,223,890	\$100,035,825	\$126,531,173	\$114,729,896	\$469,513,957
NET POSITION							
Net increase in fiduciary net position	3,639,166	4,617,849	9,916,564	13,192,247	17,664,599	29,647,091	78,677,516
Beginning of year	28,307,781	93,328,725	199,716,153	233,625,430	304,134,213	262,460,012	1,121,572,314
End of year	\$31,946,947	\$97,946,574	\$209,632,717	\$246,817,677	\$321,798,812	\$292,107,103	\$1,200,249,830
UNITS							
Sold	714,027	1,704,281	3,156,190	4,739,389	6,666,788	7,575,374	24,556,049
Redeemed	(735,968)	(2,042,655)	(3,641,558)	(5,051,220)	(6,823,650)	(6,650,457)	(24,945,508)
NET INCREASE (DECREASE)	(21,941)	(338,374)	(485,368)	(311,831)	(156,862)	924,917	(389,459)

Aggressive Managed Allocation Option
Age Bands Within the Aggressive Managed Allocation Option

	Ages 0-3	Ages 4-7	Ages 8-11	Ages 12-14	Ages 15-17	Ages 18 & Over	Total
ADDITIONS							
Subscriptions	\$20,383,490	\$33,484,773	\$50,793,381	\$43,658,960	\$39,001,325	\$26,209,943	\$213,531,872
Increase from investment operations:							
Dividends from underlying funds	812,533	2,048,219	2,683,719	1,754,197	1,513,808	721,885	9,534,361
Realized gain distributions from underlying funds	136,193	299,524	311,703	176,720	130,262	42,654	1,097,056
Net unrealized appreciation on underlying fund shares	5,150,915	10,483,928	11,832,270	6,636,614	4,930,173	1,719,080	40,752,980
Net realized gain on investments in underlying fund shares	230,485	101,477	—	—	—	—	331,962
Net increase from investment operations	6,330,126	12,933,148	14,827,692	8,567,531	6,574,243	2,483,619	51,716,359
TOTAL ADDITIONS	<u>\$26,713,616</u>	<u>\$46,417,921</u>	<u>\$65,621,073</u>	<u>\$52,226,491</u>	<u>\$45,575,568</u>	<u>\$28,693,562</u>	<u>\$265,248,231</u>
DEDUCTIONS							
Redemptions	\$17,671,329	\$34,274,040	\$33,708,361	\$31,139,806	\$27,657,664	\$16,340,486	\$160,791,686
Expenses:							
Direct Plan manager fee	45,536	108,775	141,958	91,652	78,130	41,025	507,076
Administrative fee	3,795	9,065	11,830	7,638	6,511	3,419	42,258
Total expenses	49,331	117,840	153,788	99,290	84,641	44,444	549,334
Net realized loss on investments in underlying fund shares	—	—	20,988	95,038	188,797	131,501	436,324
TOTAL DEDUCTIONS	<u>\$17,720,660</u>	<u>\$34,391,880</u>	<u>\$33,883,137</u>	<u>\$31,334,134</u>	<u>\$27,931,102</u>	<u>\$16,516,431</u>	<u>\$161,777,344</u>
NET POSITION							
Net increase in fiduciary net position	8,992,956	12,026,041	31,737,936	20,892,357	17,644,466	12,177,131	103,470,887
Beginning of year	32,364,763	83,605,771	103,298,012	67,786,404	58,285,247	32,325,846	377,666,043
End of year	<u>\$41,357,719</u>	<u>\$95,631,812</u>	<u>\$135,035,948</u>	<u>\$88,678,761</u>	<u>\$75,929,713</u>	<u>\$44,502,977</u>	<u>\$481,136,930</u>
UNITS							
Sold	1,363,062	2,255,278	3,374,152	2,882,375	2,622,610	1,908,226	14,405,703
Redeemed	(1,159,108)	(2,289,940)	(2,224,782)	(2,055,157)	(1,862,390)	(1,204,757)	(10,796,134)
NET INCREASE (DECREASE)	<u>203,954</u>	<u>(34,662)</u>	<u>1,149,370</u>	<u>827,218</u>	<u>760,220</u>	<u>703,469</u>	<u>3,609,569</u>

**CONNECTICUT HIGHER EDUCATION TRUST – DIRECT PLAN
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017**

Multi-Fund Investment Options

	Global Equity Index Option	Global Tactical Asset Allocation Option	International Equity Index Option	Active Global Equity Option	U.S. Equity Index Option	High Equity Balanced Option
ADDITIONS						
Subscriptions	\$22,728,160	\$1,153,092	\$3,284,280	\$9,677,212	\$35,418,722	\$30,401,739
Increase from investment operations:						
Interest	—	—	—	—	—	—
Dividends from underlying funds	4,558,767	31,857	98,937	542,205	787,761	6,309,115
Realized gain distributions from underlying funds	416,286	—	—	335,261	189,497	1,240,128
Net unrealized appreciation on underlying fund shares	31,774,818	207,275	752,034	6,425,545	6,735,645	30,120,318
Net realized gain on investments in underlying fund shares	—	—	—	—	—	7,708,925
Net increase from investment operations	36,749,871	239,132	850,971	7,303,011	7,712,903	45,378,486
TOTAL ADDITIONS	\$59,478,031	\$1,392,224	\$4,135,251	\$16,980,223	\$43,131,625	\$75,780,225
DEDUCTIONS						
Redemptions	\$32,087,796	\$554,218	\$785,641	\$7,268,992	\$7,940,984	\$47,917,773
Expenses:						
Direct Plan manager fee	242,009	2,556	4,956	45,781	55,930	371,354
Administrative fee	20,167	213	413	3,815	4,661	30,946
Total expenses	262,176	2,769	5,369	49,596	60,591	402,300
Net unrealized depreciation on underlying fund shares	—	—	—	—	—	—
Net realized loss on investments in underlying fund shares	291,228	30,510	30,824	57,427	32,970	—
TOTAL DEDUCTIONS	\$32,641,200	\$587,497	\$821,834	\$7,376,015	\$8,034,545	\$48,320,073
NET POSITION						
Net increase in fiduciary net position	26,836,831	804,727	3,313,417	9,604,208	35,097,080	27,460,152
Beginning of year	190,948,985	1,824,200	2,794,130	34,448,822	29,666,374	300,007,622
End of year	\$217,785,816	\$2,628,927	\$6,107,547	\$44,053,030	\$64,763,454	\$327,467,774
UNITS						
Sold	1,382,042	115,921	329,960	609,456	3,161,810	1,514,590
Redeemed	(1,969,459)	(55,786)	(77,764)	(463,681)	(708,037)	(2,404,221)
NET INCREASE (DECREASE)	(587,417)	60,135	252,196	145,775	2,453,773	(889,631)

Active Fixed- Income Option	Social Choice Option	Index Fixed- Income Option	Money Market Option	Principal Plus Interest Option	Total
\$8,775,442	\$9,300,469	\$6,868,346	\$23,033,679	\$86,824,359	\$237,465,500
—	—	—	—	4,181,332	4,181,332
1,129,891	853,895	365,437	153,760	—	14,831,625
154,903	1,598,274	—	—	—	3,934,349
544,602	4,353,076	—	—	—	80,913,313
—	—	—	—	—	7,708,925
1,829,396	6,805,245	365,437	153,760	4,181,332	111,569,544
\$10,604,838	\$16,105,714	\$7,233,783	\$23,187,439	\$91,005,691	\$349,035,044
\$8,543,425	\$5,737,577	\$4,832,689	\$16,432,786	\$73,602,850	\$205,704,731
49,513	47,344	19,005	42,172	—	880,620
4,126	3,945	1,584	3,514	—	73,384
53,639	51,289	20,589	45,686	—	954,004
—	—	375,785	—	—	375,785
161,919	30,240	38,177	—	—	673,295
\$8,758,983	\$5,819,106	\$5,267,240	\$16,478,472	\$73,602,850	\$207,707,815
1,845,855	10,286,608	1,966,543	6,708,967	17,402,841	141,327,229
41,208,367	34,424,725	15,170,939	32,775,310	252,567,003	935,836,477
\$43,054,222	\$44,711,333	\$17,137,482	\$39,484,277	\$269,969,844	\$1,077,163,706
550,176	492,929	581,702	2,270,105	5,552,930	16,561,621
(538,409)	(305,191)	(408,348)	(1,619,732)	(4,713,178)	(13,263,806)
11,767	187,738	173,354	650,373	839,752	3,297,815

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**CONNECTICUT HIGHER EDUCATION TRUST – DIRECT PLAN
FINANCIAL HIGHLIGHTS
FOR THE YEAR ENDED JUNE 30, 2017**

**Conservative Managed Allocation Option
Age Bands Within the Conservative Managed Allocation Option**

	<u>Ages 0-3</u>	<u>Ages 4-7</u>	<u>Ages 8-11</u>	<u>Ages 12-14</u>	<u>Ages 15-17</u>	<u>Ages 18 & Over</u>
FOR A UNIT OUTSTANDING THROUGHOUT THE YEAR						
Net position value, beginning of year	\$ 13.84	\$ 13.30	\$ 12.81	\$ 12.13	\$ 11.57	\$ 10.94
Gain (loss) from investment operations:						
Net investment income(a)	0.32	0.31	0.30	0.26	0.23	0.19
Net realized and unrealized gain on investments	<u>1.28</u>	<u>0.93</u>	<u>0.62</u>	<u>0.41</u>	<u>0.20</u>	<u>—</u>
Total gain from investment operations	<u>1.60</u>	<u>1.24</u>	<u>0.92</u>	<u>0.67</u>	<u>0.43</u>	<u>0.19</u>
Net position value, end of year	<u>\$ 15.44</u>	<u>\$ 14.54</u>	<u>\$ 13.73</u>	<u>\$ 12.80</u>	<u>\$ 12.00</u>	<u>\$ 11.13</u>
 TOTAL RETURN	 <u>11.56%</u>	 <u>9.32%</u>	 <u>7.18%</u>	 <u>5.52%</u>	 <u>3.72%</u>	 <u>1.74%</u>
RATIOS AND SUPPLEMENTAL DATA						
Net position at end of period (in thousands)	\$ 6,092	\$ 13,855	\$ 11,692	\$ 11,900	\$ 19,018	\$ 22,215
Ratio of expenses to average net position(b)	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%
Ratio of net investment income to average net position	2.18%	2.21%	2.27%	2.09%	1.91%	1.71%

(a) Based on average units outstanding

(b) Does not include expenses on Direct Plan investments in the TIAA-CREF Funds and other third party mutual funds

**CONNECTICUT HIGHER EDUCATION TRUST – DIRECT PLAN
FINANCIAL HIGHLIGHTS
FOR THE YEAR ENDED JUNE 30, 2017**

**Moderate Managed Allocation Option
Age Bands Within the Moderate Managed Allocation Option**

	<u>Ages 0-3</u>	<u>Ages 4-7</u>	<u>Ages 8-11</u>	<u>Ages 12-14</u>	<u>Ages 15-17</u>	<u>Ages 18 & Over</u>
FOR A UNIT OUTSTANDING THROUGHOUT THE YEAR						
Net position value, beginning of year	\$ 20.76	\$ 18.09	\$ 18.72	\$ 18.94	\$ 17.77	\$ 16.81
Gain (loss) from investment operations:						
Net investment income(a)	0.47	0.41	0.44	0.44	0.38	0.31
Net realized and unrealized gain on investments	<u>2.58</u>	<u>1.81</u>	<u>1.42</u>	<u>1.14</u>	<u>0.82</u>	<u>0.54</u>
Total gain from investment operations	<u>3.05</u>	<u>2.22</u>	<u>1.86</u>	<u>1.58</u>	<u>1.20</u>	<u>0.85</u>
Net position value, end of year	<u>\$ 23.81</u>	<u>\$ 20.31</u>	<u>\$ 20.58</u>	<u>\$ 20.52</u>	<u>\$ 18.97</u>	<u>\$ 17.66</u>
 TOTAL RETURN	 <u>14.69%</u>	 <u>12.33%</u>	 <u>9.94%</u>	 <u>8.34%</u>	 <u>6.75%</u>	 <u>5.06%</u>
RATIOS AND SUPPLEMENTAL DATA						
Net position at end of period (in thousands)	\$ 31,947	\$ 97,947	\$ 209,633	\$ 246,818	\$ 321,799	\$ 292,107
Ratio of expenses to average net position(b)	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%
Ratio of net investment income to average net position	2.13%	2.16%	2.22%	2.25%	2.07%	1.81%

(a) Based on average units outstanding

(b) Does not include expenses on Direct Plan investments in the TIAA-CREF Funds and other third party mutual funds

Aggressive Managed Allocation Option
Age Bands Within the Aggressive Managed Allocation Option

	<u>Ages 0-3</u>	<u>Ages 4-7</u>	<u>Ages 8-11</u>	<u>Ages 12-14</u>	<u>Ages 15-17</u>	<u>Ages 18 & Over</u>
FOR A UNIT OUTSTANDING THROUGHOUT THE YEAR						
Net position value, beginning of year	\$ 13.90	\$ 13.82	\$ 14.11	\$ 14.26	\$ 14.11	\$ 13.26
Gain (loss) from investment operations:						
Net investment income(a)	0.30	0.31	0.32	0.33	0.32	0.27
Net realized and unrealized gain on investments	<u>2.14</u>	<u>1.77</u>	<u>1.51</u>	<u>1.30</u>	<u>1.10</u>	<u>0.64</u>
Total gain from investment operations	<u>2.44</u>	<u>2.08</u>	<u>1.83</u>	<u>1.63</u>	<u>1.42</u>	<u>0.91</u>
Net position value, end of year	<u>\$ 16.34</u>	<u>\$ 15.90</u>	<u>\$ 15.94</u>	<u>\$ 15.89</u>	<u>\$ 15.53</u>	<u>\$ 14.17</u>
 TOTAL RETURN	 <u>17.55%</u>	 <u>15.05%</u>	 <u>12.97%</u>	 <u>11.43%</u>	 <u>10.06%</u>	 <u>6.86%</u>
RATIOS AND SUPPLEMENTAL DATA						
Net position at end of period (in thousands)	\$ 41,358	\$ 95,632	\$ 135,036	\$ 88,679	\$ 75,930	\$ 44,503
Ratio of expenses to average net position(b)	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%
Ratio of net investment income to average net position	2.01%	2.13%	2.14%	2.17%	2.19%	1.98%

(a) Based on average units outstanding

(b) Does not include expenses on Direct Plan investments in the TIAA-CREF Funds and other third party mutual funds

**CONNECTICUT HIGHER EDUCATION TRUST – DIRECT PLAN
FINANCIAL HIGHLIGHTS
FOR THE YEAR ENDED JUNE 30, 2017**

Multi-Fund Investment Options

	Global Equity Index Option	Global Tactical Asset Allocation Option	International Equity Index Option	Active Global Equity Option	U.S. Equity Index Option	High Equity Balanced Option	Active Fixed- Income Option	Social Choice Option
FOR A UNIT OUTSTANDING THROUGHOUT THE YEAR								
Net position value, beginning of year	\$ 15.07	\$ 9.51	\$ 9.12	\$ 14.49	\$ 10.21	\$ 18.78	\$ 15.61	\$ 17.27
Gain (loss) from investment operations:								
Net investment income(a)	0.35	0.14	0.23	0.21	0.18	0.38	0.42	0.39
Net realized and unrealized gain on investments	<u>2.60</u>	<u>0.78</u>	<u>1.58</u>	<u>2.76</u>	<u>1.69</u>	<u>2.54</u>	<u>0.20</u>	<u>2.83</u>
Total gain from investment operations	<u>2.95</u>	<u>0.92</u>	<u>1.81</u>	<u>2.97</u>	<u>1.87</u>	<u>2.92</u>	<u>0.62</u>	<u>3.22</u>
Net position value, end of year	<u>\$ 18.02</u>	<u>\$ 10.43</u>	<u>\$ 10.93</u>	<u>\$ 17.46</u>	<u>\$ 12.08</u>	<u>\$ 21.70</u>	<u>\$ 16.23</u>	<u>\$ 20.49</u>
 TOTAL RETURN	 <u>19.58%</u>	 <u>9.67%</u>	 <u>19.85%</u>	 <u>20.50%</u>	 <u>18.32%</u>	 <u>15.55%</u>	 <u>3.97%</u>	 <u>18.65%</u>
RATIOS AND SUPPLEMENTAL DATA								
Net position at end of period (in thousands)	\$ 217,786	\$ 2,629	\$ 6,108	\$ 44,053	\$ 64,763	\$ 327,468	\$ 43,054	\$ 44,711
Ratio of expenses to average net position(b)	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%
Ratio of net investment income to average net position	2.13%	1.37%	2.27%	1.29%	1.56%	1.91%	2.61%	2.03%

(a) Based on average units outstanding

(b) Does not include expenses on Direct Plan investments in the TIAA-CREF Funds and other third party mutual funds

Index Fixed- Income Option	Money Market Option	Principal Plus Interest Option
\$ 11.99	\$ 10.14	\$ 15.51
0.26	0.03	0.26
<u>(0.34)</u>	<u>—</u>	<u>—</u>
<u>(0.08)</u>	<u>0.03</u>	<u>0.26</u>
<u>\$ 11.91</u>	<u>\$ 10.17</u>	<u>\$ 15.77</u>
<u>(0.67%)</u>	<u>0.30%</u>	<u>1.68%</u>

\$ 17,137	\$ 39,484	\$ 269,970
0.13%	0.13%	—%
2.18%	0.31%	1.63%



Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Trustee of the Connecticut Higher Education Trust - Direct Plan:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Connecticut Higher Education Trust - Direct Plan (the "Direct Plan"), which comprise the statement of fiduciary net position as of June 30, 2017, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 18, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Direct Plan's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Direct Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Direct Plan's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Direct Plan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

President/Chairman Capron LLP

Baltimore, Maryland
August 18, 2017