

# STATE OF CONNECTICUT OFFICE OF THE TREASURER

# 2012



## SHORT-TERM INVESTMENT FUND COMPREHENSIVE ANNUAL FINANCIAL REPORT

*For the fiscal year ended June 30, 2012*

# STATE OF CONNECTICUT

## Office of the State Treasurer



The State Motto "Qui Transtulit Sustinet," (He Who Transplanted Still Sustains), has been associated with the various versions of the state seal from the creation of the Saybrook Colony Seal.

# STATE OF CONNECTICUT OFFICE OF THE TREASURER

# 2012



## SHORT-TERM INVESTMENT FUNDS COMPREHENSIVE ANNUAL FINANCIAL REPORT

*For the fiscal year ended June 30, 2012*

Prepared by: State of Connecticut  
Office of the Treasurer  
55 Elm Street  
Hartford, CT 06106-1773



# **Introductory Section**





DENISE L. NAPPIER  
TREASURER

**State of Connecticut**  
Office of the Treasurer

CHRISTINE SHAW  
DEPUTY TREASURER

December 31, 2012

To the Participants in Connecticut's Short-Term Investment Fund:

I am pleased to submit this Comprehensive Annual Financial Report for the State of Connecticut Short-Term Investment Fund ("STIF" or "Fund") for the fiscal year ended June 30, 2012. This Report reflects a year of solid performance -- exceeding the Fund's benchmark and providing substantial incremental income for the State, local governments and, ultimately, their taxpayers.

Responsibility for both the accuracy of the data and the completeness and fairness of this report rests with management. All disclosures necessary and required to enable investors and the financial community to gain an understanding of STIF's financial activities have been included. We believe the enclosed financial statements and data are presented fairly in all material respects and are reported in a manner designed to accurately present the financial position and results of STIF's operations.

STIF was created by legislation enacted in 1972, and is a state and local government investment pool managed by the Treasurer of the State of Connecticut. Investors in the Fund include the State, state agencies and authorities, municipalities, and other political subdivisions of the State. The primary objective of the Fund is to provide the greatest possible return while, first, protecting principal and, second, providing liquidity for investors. The Fund's investment policy ensures strong asset diversification by security type and issuer, comprising high-quality, very liquid securities with a relatively short average maturity. In addition, the Fund maintains a designated surplus reserve to protect against security defaults or the erosion of security values due to any significant unforeseen market changes.

## **Financial Information**

In Fiscal Year 2012, STIF generated a return of 0.16% and outperformed its benchmark by 11 basis points - resulting in \$5.3 million in additional interest income for Connecticut governments and their taxpayers, while contributing \$4.0 million to its reserves. STIF's reserves are an important pillar of our investment pool, and STIF is one of the few government investment pools to maintain a reserve. The overall soundness of STIF was recognized by Standard & Poor's (S&P) which affirmed and maintained STIF's AAAM rating, the highest rating issued by S&P for money market funds and investment pools. As of June 30, 2012, STIF had \$4.9 billion in assets under management with municipalities opening fourteen new STIF accounts. The total number of municipal accounts now stands at 674. This level of participation reflects the continued confidence in the Fund as a solid investment vehicle for Connecticut communities.

STIF continued to outperform in 2012 during the market turbulence resulting from the European sovereign and banking crisis, while maintaining a conservative risk posture. The domestic economic environment began to show nascent signs of growth as gross domestic product (GDP) rose 2.1% during the fiscal year and the unemployment rate dropped to 8.2% from 9.2% a year earlier. While the United States strengthened, the weakness in Europe as well as China served to mitigate inflation risks, allowing the Federal Reserve to maintain its near- zero interest rate policy.

55 ELM STREET, HARTFORD, CONNECTICUT 06106-1773 • (860) 702-3000  
*An Equal Opportunity Employer*

## Internal Control Structure

Management is responsible for maintaining a system of adequate internal accounting controls designed to provide reasonable assurance that transactions are (i) executed in accordance with management's general or specific authorization, and (ii) recorded as necessary to maintain accountability for assets and to permit preparation of financial statements consistent with generally accepted accounting principles. We believe the internal controls in effect during Fiscal Year 2012 adequately safeguarded STIF's assets and provided reasonable assurance regarding the proper recording of financial transactions. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires estimates and judgments by management.

S&P monitors STIF's portfolio on a weekly basis to ensure that it maintains the safety and liquidity investors expect. In addition, the Investment Advisory Council and the Treasurer's Cash Management Advisory Board periodically review STIF's portfolio and performance throughout the year.

## Independent Audit

The State of Connecticut's independent Auditors of Public Accounts conducted an annual audit of this Comprehensive Annual Financial Report in accordance with generally accepted auditing standards. The auditors' report on the basic financial statements is included in the Financial Section of this report.

## Management Discussion and Analysis

The Government Accounting Standards Board requires that STIF provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal and overview is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found in the Financial Section immediately following the report of the independent auditors.

## Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Fund a Certificate of Achievement for Excellence in Financial Reporting for its Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2011. The Certificate is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

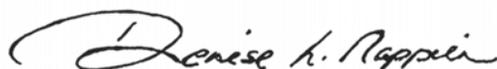
## Additional Information

A section of the Treasury website is dedicated to STIF investors, and features helpful information such as the current daily rate, monthly portfolio listings, historical data, and links to annual and quarterly financial reports. The site also contains forms, instructions and an investor's guide which are designed to help investors better understand the products and services offered by the Treasury including Grant Express, Debt Service Express, and Clean Water Fund Express. The STIF site and copies of this report may be accessed through the Treasury's website, [www.state.ct.us/ott](http://www.state.ct.us/ott).

As part of Treasury's continual efforts to enhance the investor's experience and expand functionality, the STIF page of the Treasury website also contains STIF Express, a secure online investor system, which allows investors to view account balances and transaction histories as well as give investors the ability to initiate deposits and withdrawals via the Internet.

We appreciate your participation in STIF, and hope that this annual report will prove both informative and useful. Questions concerning any of the information contained in this report or requests for additional financial information should be addressed to the Office of the Treasurer, 55 Elm Street, Hartford, Connecticut 06106-1773, or you may call (860) 702-3000.

Sincerely,



Denise L. Nappier  
Treasurer  
State of Connecticut



DENISE L. NAPPIER  
TREASURER

**State of Connecticut**  
Office of the Treasurer

CHRISTINE SHAW  
DEPUTY TREASURER

Connecticut State Treasury  
Hartford, Connecticut  
December 31, 2012

The Office of the Treasurer assumes the daily responsibility of managing the assets of the Short-Term Investment Fund (STIF) pool. State Street Bank and Trust Company serves as custodian for the pool. All investments must be made in instruments authorized by Connecticut General Statutes (CGS) 3-27c - 3-27f. The most recent guidelines under which the pool operates were adopted and approved by the State Treasurer on August 21, 1996 and revised June 16, 2008 and April 17, 2009. It is our belief that the contents of this Annual Report make evident the State of Connecticut Treasurer's Office support of the safe custody and conscientious stewardship of the Short-Term Investment Fund.

While STIF's financial statements and the related financial data contained in this Annual Report have been prepared in conformity with generally accepted accounting principles as a "2a7-like" pool, and such financial statements are audited annually by the State Auditors of Public Accounts, the ultimate accuracy and validity of this information is the responsibility of the management of the State Treasurer's Office. To carry out this responsibility, the Treasury maintains financial policies, procedures, accounting systems and internal controls which management believes provide reasonable, but not absolute, assurance that accurate financial records are maintained and investments and other assets are safeguarded.

In management's opinion, STIF's internal control structure is adequate to ensure that the financial information in this report presents fairly STIF's operation and financial condition.

Sincerely,

A handwritten signature in black ink, appearing to read "Christine Shaw", is written over a light blue horizontal line.

Christine Shaw  
Deputy Treasurer

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Connecticut State Treasurer's Short-Term Investment Fund

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Linda C. Danison*

President

*Jeffrey R. Enev*

Executive Director

**Mission Statement**

To serve as the premier State Treasurer’s Office in the nation through effective management of public resources, high standards of professionalism and integrity, and expansion of opportunity for the citizens and businesses of Connecticut.

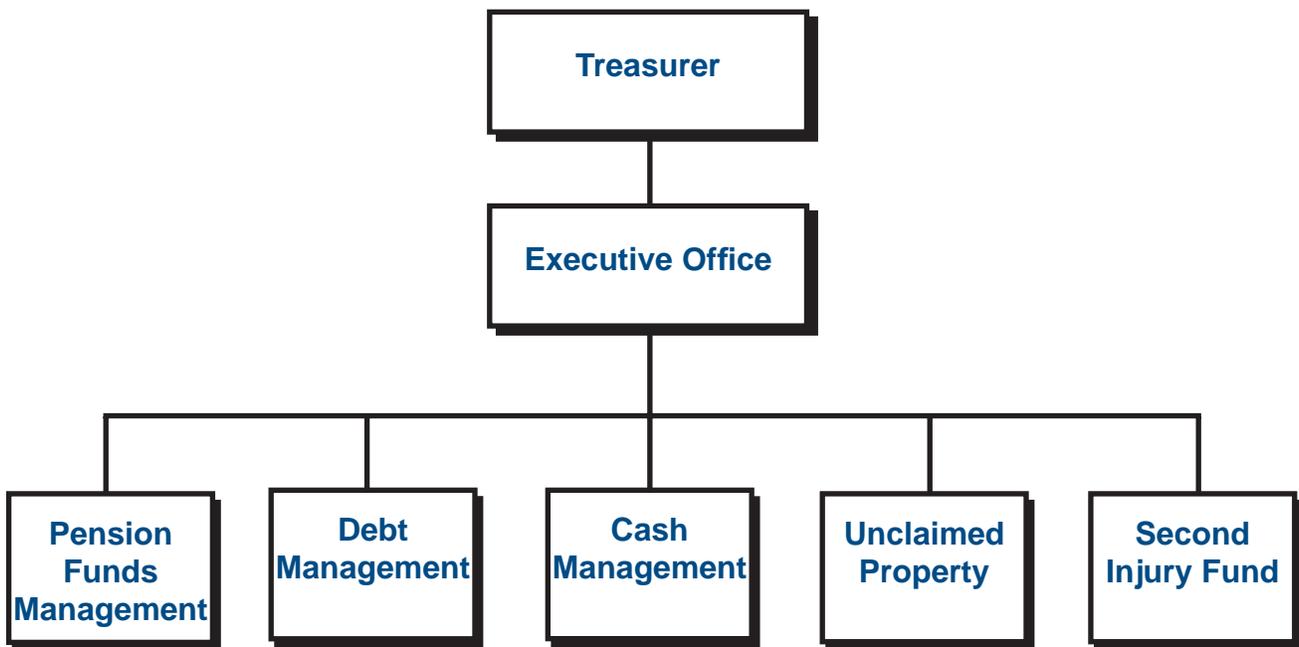
**Statutory Responsibility**

The Office of the Treasurer was established following the adoption of the fundamental orders of Connecticut in 1638. The Treasurer shall receive all funds belonging to the State and disburse the same only as may be directed by law, as described in Article Fourth, Section 22 of the Connecticut Constitution and in Title 3 of the Connecticut General Statutes.

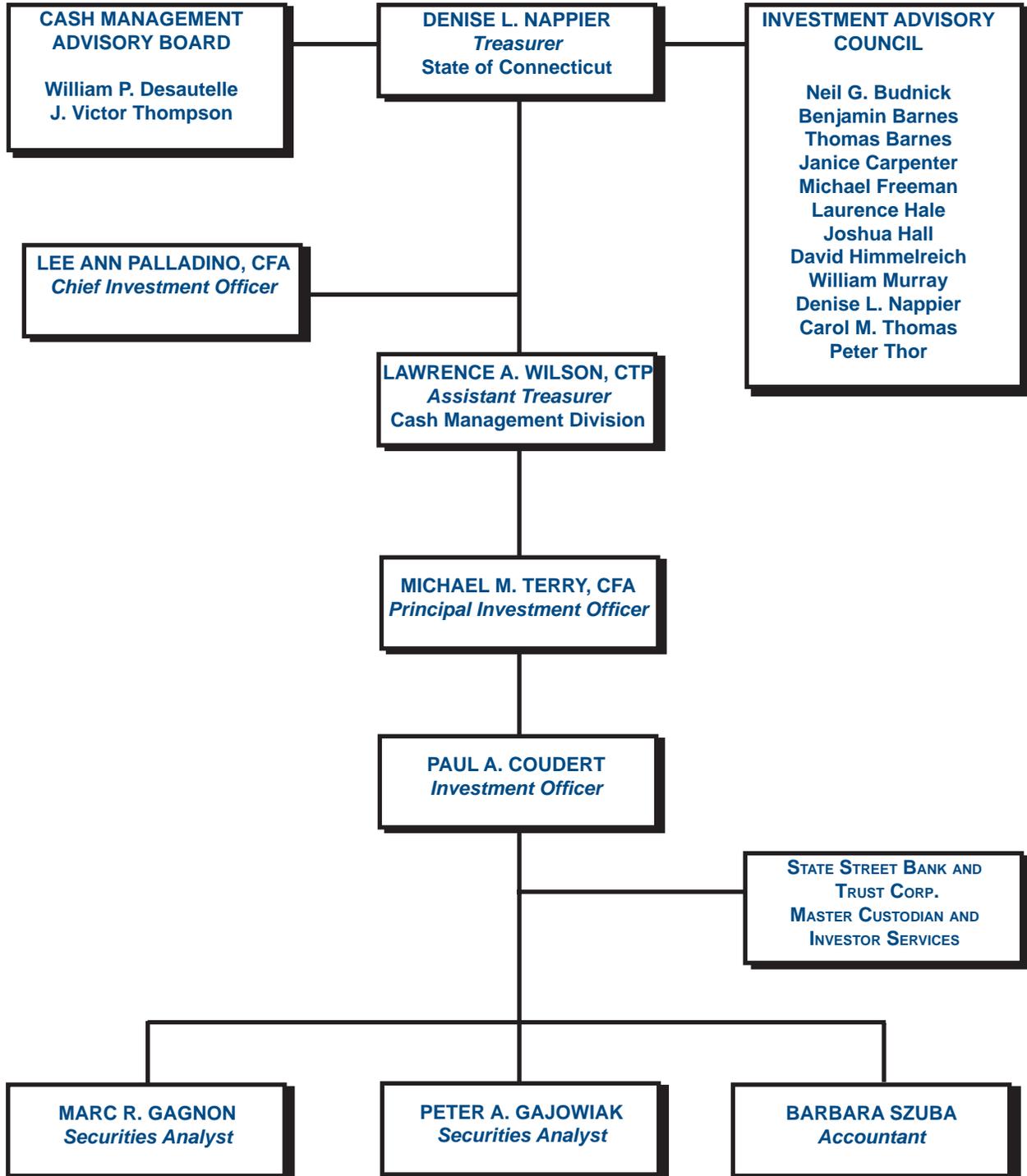
The Treasurer, as Chief Fiscal Officer for the State, oversees the prudent preservation and management of State funds, including the administration of a \$24.0 billion portfolio of pension assets and over \$4.9 billion in total State, local short-term, and other investments, and over \$1.8 billion of assets in the Connecticut Higher Education Trust. The Treasurer maintains an accurate account of all funds through sophisticated security measures and procedures.

**Public Service**

The Office of the Treasurer includes an Executive Office as well as five divisions, each with specific responsibilities: Pension Funds Management, Cash Management, Debt Management, Unclaimed Property, and the Second Injury Fund.



**SHORT-TERM INVESTMENT FUND ADMINISTRATION**



As of September 21, 2012.

## LIST OF PRINCIPAL OFFICIALS

### SHORT-TERM INVESTMENT FUND

55 Elm Street  
6th Floor  
Hartford, CT. 06106-2773  
Telephone: (860) 702-3118  
Facsimile: (860) 702-3048  
World Wide Web:  
[www.state.ct.us/ott](http://www.state.ct.us/ott)

Treasurer, State of Connecticut  
DENISE L. NAPPIER (860) 702-3001

Deputy Treasurer, State of Connecticut  
CHRISTINE SHAW (860) 702-3211

Assistant Treasurer, Cash Management  
LAWRENCE A. WILSON, CTP (860) 702-3126

### STIF INVESTMENT MANAGEMENT

Principal Investment Officer  
MICHAEL M. TERRY, CFA (860) 702-3255

Investment Officer  
PAUL A. COUDERT (860) 702-3254

Securities Analyst  
MARC R. GAGNON (860) 702-3158

Securities Analyst  
PETER A. GAJOWIAK (860) 702-3124

### STIF INVESTOR SERVICES

Accountant  
BARBARA SZUBA (860) 702-3118

CUSTODIAN AND INVESTOR SERVICES  
STATE STREET BANK AND TRUST CORPORATION  
1-800-754-8430



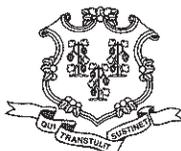
# **Financial**

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# **Section**



STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

STATE CAPITOL

210 CAPITOL AVENUE

HARTFORD, CONNECTICUT 06106-1559

JOHN C. GERAGOSIAN

ROBERT M. WARD

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statement of net assets of the Short-Term Investment Fund, including the list of investments as of June 30, 2012, and the related statements of changes in net assets for the fiscal years ended June 30, 2012, and 2011. These financial statements are the responsibility of the management of the State Treasury. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of June 30, 2012, by correspondence with the custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Short-Term Investment Fund as of June 30, 2012, and the related statements of changes in net assets for the years ended June 30, 2012 and 2011, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the financial statements of the Short-Term Investment Fund taken as a whole. The List of Investments at June 30, 2012, contained in the Investment Section, is presented for purposes of additional analysis and is not a required part of the financial statements of the Short-Term Investment Fund. Such information has been subjected to the auditing procedures applied in the audit of the financial statements of the Short-Term Investment Fund and, in our opinion, is fairly presented in all material respects in relation to the financial statements of the Short-Term Investment Fund taken as a whole. The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the Management's Discussion and Analysis and express no opinion on it. The Introductory Section, Investment Section and Statistical Section have not been audited except as specifically noted in this auditors' opinion.

  
John C. Geragosian  
Auditor of Public Accounts

  
Robert M. Ward  
Auditor of Public Accounts

December 31, 2012  
State Capitol  
Hartford, Connecticut

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents Management's Discussion and Analysis (MD&A) of the Comprehensive Annual Financial Report (CAFR) of the State of Connecticut's Office of the Treasurer Short-Term Investment Fund (STIF) financial position and performance for the fiscal year ended June 30, 2012. It is presented as a narrative overview and analysis. Management of the State of Connecticut's Office of the Treasurer encourages readers to review it in conjunction with the transmittal letter included in the Introductory Section at the front of this report and the financial statements in the Financial Section that follow.

The Short-Term Investment Fund serves as an investment vehicle for the operating cash of the State Treasury, State agencies and authorities, municipalities, and other political subdivisions of the State. STIF is an AAAm rated investment pool of high-quality, short-term money market instruments and is managed for the sole benefit of the participants. All income is distributed monthly after deducting operating costs of approximately three basis points and an allocation to the Fund's Designated Surplus Reserve of 10 basis points (generally until the reserve reaches one percent of fund assets).

The STIF financial statements reported by the Treasurer's Office for which the Treasurer has fiduciary responsibility for the investment thereof begin on page 15 and provide detailed information about the Fund.

### FINANCIAL HIGHLIGHTS Condensed Financial Information

#### Short Term Investment Fund Net Assets and Changes in Net Assets

**Net Assets** - The net assets under management in the Short-Term Investment Fund at the close of the 2012 fiscal year were approximately \$4.9 billion, versus \$4.5 billion the previous year.

The net assets under management in the Short-Term Investment Fund at the close of the 2011 fiscal year were \$4.5 billion, approximately the same as the previous year.

**Operating Income** - General financial market conditions produced an annual total return of 0.16%, net of operating expenses and allocations to Fund reserves in fiscal 2012, compared to an annual total return of 0.23%, net of operating expenses and allocations to Fund reserves in the previous fiscal year. The annual total return exceeded that achieved by its benchmark, which equaled .05%, by 11 basis points, resulting in \$5.3 million in additional interest income for Connecticut governments and their taxpayers while also adding \$4.0 million to its reserves. During fiscal year 2012, the Federal Reserve maintained its Federal Funds target range at 0.00 – 0.25 percent where it has held since December 2008. STIF increased its weighted average maturity during this time frame from 31 days at the end of Fiscal Year 2011 to 33 days at the end of Fiscal Year 2012.

General financial market conditions produced an annual total return in 2011 of 0.23%, net of operating expenses and allocations to Fund reserves, compared to an annual total return of 0.34%, net of operating expenses and allocations to Fund reserves in the previous fiscal year. The annual total return exceeded that achieved by its benchmark, which equaled 0.08%, by 15 basis points, resulting in \$7.4 million in additional interest income for Connecticut governments and their taxpayers. During fiscal year 2011, the Federal Funds target rate was maintained at 0.00 – 0.25 percent where it has held since December 2008. STIF increased its weighted average maturity during this time frame from 19 days at the end of Fiscal Year 2010 to 31 days at the end of Fiscal Year 2011.

**Designated Surplus Reserve** - In order to support the creditworthiness of the Fund and provide some additional protection against potential credit losses, a designated surplus reserve (reserve) is maintained. The amount transferred to the reserve is equal to the annualized rate of 0.1 percent of the end-of-day investment balances. Generally, no transfer is made if the reserve account is equal to or greater than 1.0 percent of the daily investment balance. The fund operated in a reserve transfer position due to the high level of assets. During the fiscal year, \$4.0 million was transferred into the reserve bringing the total reserve to \$47.4 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Table 1 - Net Assets**

Assets	2012	Increase (Decrease)	2011	Increase (Decrease)	2010
Investments in Securities, at amortized cost	\$4,891,940,758	\$399,928,141	\$4,492,012,617	\$(87,753,153)	\$4,579,765,770
Receivables and Other	2,125,196	(860,090)	2,985,286	125,867	2,859,419
Total Assets	4,894,065,954	399,068,051	4,494,997,903	(87,627,286)	4,582,625,189
Liabilities	(494,015)	277,711	(771,726)	264,448	(1,036,174)
Net Assets	<u>\$4,893,571,939</u>	<u>\$399,345,762</u>	<u>\$4,494,226,177</u>	<u>\$(87,362,838)</u>	<u>\$4,581,589,015</u>

**Table 2 - Changes in Net Assets**

Assets	2012	Increase (Decrease)	2011	Increase (Decrease)	2010
Net Interest Income	\$12,665,270	\$(4,696,105)	\$17,361,375	\$(3,882,679)	\$21,244,054
Net Realized Gains	155,824	46,024	109,800	(174,396)	284,196
Net Increase Resulting from Operations	12,821,094	(4,650,081)	17,471,175	(4,057,075)	21,528,250
Purchase of Units by Participants	<u>10,801,899,185</u>	<u>(1,969,057,424)</u>	<u>12,770,956,609</u>	<u>(1,778,734,152)</u>	<u>14,549,690,761</u>
Total Additions	10,814,720,279	(1,973,707,505)	12,788,427,784	(1,782,791,227)	14,571,219,011
Deductions					
Distribution of Income to Participants	7,557,772	(3,742,234)	11,300,006	(4,272,188)	15,572,194
Redemption of Units by Participants	10,406,516,246	(2,456,730,262)	12,863,246,508	(1,658,122,790)	14,521,369,298
Operating Expenses	1,300,499	56,391	1,244,108	30,613	1,213,495
Total Deductions	<u>10,415,374,517</u>	<u>(2,460,416,105)</u>	<u>12,875,790,622</u>	<u>(1,662,364,365)</u>	<u>14,538,154,987</u>
Change in Net Assets	399,345,762	486,708,600	(87,362,838)	(120,426,862)	33,064,024
Total net assets – beginning	<u>4,494,226,177</u>	<u>(87,362,838)</u>	<u>4,581,589,015</u>	<u>33,064,024</u>	<u>4,548,524,991</u>
Total net assets - ending	<u>\$4,893,571,939</u>	<u>\$399,345,762</u>	<u>\$4,494,226,177</u>	<u>\$(87,362,838)</u>	<u>\$4,581,589,015</u>

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the Office of the Treasurer's Short-Term Investment Fund basic financial statements, which are comprised of: 1) Statement of Net Assets, 2) Statement of Changes in Net Assets and 3) Notes to the Financial Statements.

The Statement of Net Assets and the Statement of Changes in Net Assets are two financial statements that report information about the Short-Term Investment Fund. These statements include all assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets on page 15 presents all of the Short-Term Investment Fund's assets and liabilities, with the difference between the two reported as "net assets".

The Statement of Changes in Net Assets on page 16 presents information showing how the Short-Term Investment Fund's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the Short-Term Investment Fund's financial statements. The notes can be found on pages 17-22 of this report.

## ECONOMIC CONDITIONS AND OUTLOOK

The Federal Open Market Committee continued to predict economic recovery improving at a moderate pace throughout the 2012 fiscal year. Growth in employment has been slow but pointing to improvement, and unemployment rates remained elevated. The housing sector has shown some signs of improvement as fiscal year 2012 ended but from depressed levels. Inflation has been subdued during the year and longer term inflation

## MANAGEMENT'S DISCUSSION AND ANALYSIS

expectations have remained stable. Household spending has continued to advance, but growth in business fixed investment appears to have slowed.

The economy is not as robust as it needs to be for sustained recovery as indicated by a relative small stock market gain of 2.4% over the previous fiscal year with the S&P ending the fiscal year at 1,362, 1.7% better than when the fiscal year began. The percent of the U.S. labor force unemployed fell to 8.2 percent down from 9.1 percent at the end of fiscal year 2011.

The Federal Open Market Committee at its September 2012 meeting maintained the target range for the federal funds rate at 0 to ¼ percent and indicated that it anticipates that “exceptionally low levels” are likely to be warranted at least through mid-2015 to help spur the economy.

Although Connecticut has experienced a modest recovery, economic growth has not been sufficient to substantially reduce the state unemployment rate of 8.4 percent at June 30, 2012, down from 9.1 percent at fiscal year end June 30, 2011. The Connecticut Department of Labor unemployment release for September 2012 reported an unexpected surge to 9.2 percent at the end of August 2012. The State Comptroller reported that the state's General Fund ended the 2012 fiscal year with a pre-audited \$143.6 million deficit which was eliminated using General Fund reserves from prior years. General Fund tax revenues increased by \$854.2 million, or 4.8 percent, during the year. General Fund spending was up \$936.9 million or 5.2 percent over last year, mainly from an increase in Department of Social Services spending by \$409.4 million as Medicaid caseloads advanced 52 percent during the year, and other increases in spending resulted from contributions to teachers' retirement, up \$210.2 million (reflecting full funding); debt service payments; and funding for state employees' retirement.

Connecticut job and income growth may be limited in 2013 due to the national budget struggle according to the state outlook prepared by the New England Economic Partnership (NEEP) May 2012 report. The health of the U.S. economy along with the number, timing, and nature of new jobs expected in Connecticut banking, insurance, construction, and professional services sectors will affect the pace of the Connecticut recovery per NEEP.

### CONTACTING THE OFFICE OF THE TREASURER

This financial report is designed to provide a general overview of the Office of the Treasurer's finances and to show the Office's accountability for the money it receives. Questions about this report or requests for additional information should be addressed to:

Connecticut State Treasury  
55 Elm Street  
Hartford, CT 06106-1773  
Telephone (860) 702-3000  
[www.state.ct.us/ott](http://www.state.ct.us/ott)

**CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND**

**STATEMENT OF NET ASSETS  
JUNE 30, 2012**

	<u>June 30, 2012</u>
<b>ASSETS</b>	
Investment in Securities, at Amortized Cost (Note 7)	\$ 4,891,940,758
Accrued Interest and Other Receivables	1,900,005
Prepaid Assets	225,191
Total Assets	<u>\$ 4,894,065,954</u>
<b>LIABILITIES</b>	
Distribution Payable (dividend guaranteed)	494,015
Interest Payable	-
Total Liabilities	<u>\$ 494,015</u>
<b>NET ASSETS HELD IN TRUST FOR PARTICIPANTS</b> (includes reserve)	<u><u>\$ 4,893,571,939</u></u>

See accompanying Notes to the Financial Statements.

**CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND**

**STATEMENTS OF CHANGES IN NET ASSETS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND JUNE 30, 2011**

	<u>2012</u>	<u>2011</u>
<b>ADDITIONS</b>		
<b>Operations</b>		
Interest Income	\$ 12,665,270	\$ 17,361,375
Net Investment Income	12,665,270	17,361,375
Net Realized Gains	<u>155,824</u>	<u>109,800</u>
<b>Net Increase Resulting from Operations</b>	12,821,094	17,471,175
<b>Share Transactions at Net Asset Value of \$1.00 per Share</b>		
Purchase of Units	<u>10,801,899,185</u>	<u>12,770,956,609</u>
<b>TOTAL ADDITIONS</b>	<u>10,814,720,279</u>	<u>12,788,427,784</u>
 <b>DEDUCTIONS</b>		
<b>Distribution to Participants (Notes 2 &amp; 6)</b>		
Distributions to Participants*	<u>(7,557,772)</u>	<u>(11,300,006)</u>
Total Distributions Paid and Payable	<u>(7,557,772)</u>	<u>(11,300,006)</u>
<b>Share Transactions at Net Asset Value of \$1.00 per Share</b>		
Redemption of Units	(10,406,516,246)	(12,863,246,508)
<b>Operations</b>		
Operating Expenses	<u>(1,300,499)</u>	<u>(1,244,108)</u>
<b>TOTAL DEDUCTIONS</b>	<u>(10,415,374,518)</u>	<u>(12,875,790,622)</u>
<i>* Net of designated reserve transfer contributions and expenses.</i>		
 <b>CHANGE IN NET ASSETS</b>	399,345,762	(87,362,838)
 <b>Net Assets Held in Trust for Participants</b>		
Beginning of Year	4,494,226,177	4,581,589,015
End of Year	<u>4,893,571,939</u>	<u>\$ 4,494,226,177</u>

**See accompanying Notes to the Financial Statements.**

## NOTES TO FINANCIAL STATEMENTS

**NOTE 1: INTRODUCTION AND BASIS OF PRESENTATION**

The Short-Term Investment Fund ("STIF" or the "Fund") is a money market investment pool managed by the Treasurer of the State of Connecticut. Section 3-27 of the Connecticut General Statutes (CGS) created STIF. Pursuant to CGS 3-27a - 3-27f, the State, municipal entities, and political subdivisions of the State are eligible to invest in the Fund. Securities in which the State Treasurer is authorized to invest monies of STIF include United States government and agency obligations, certificates of deposit, commercial paper, corporate bonds, saving accounts, bankers' acceptances, repurchase agreements, and asset-backed securities. STIF is authorized to issue an unlimited number of units.

For State of Connecticut financial reporting purposes, STIF is considered to be a mixed investment pool – a pool having external and internal portions. The internal portion (i.e., the portion that belongs to investors that are part of the State's financial reporting entity) is not displayed in the State's basic financial statements. Instead, each fund type's investment in STIF is reported as "cash equivalents" in the statement of net assets. The external portion (i.e., the portion that belongs to investors which are not part of the State's financial reporting entity) is recorded in an investment trust fund in the basic financial statements.

The Fund is considered a "2a7-like" pool and, as such, reports its investments at amortized cost (which approximates fair value). A 2a7-like pool is not necessarily registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940 that allows money market mutual funds to use amortized cost to report net assets.

***Related Party Transactions.***

STIF had no related party transactions during the fiscal year with the State of Connecticut and its component units including leasing arrangements, the performance of administrative services and the execution of securities transactions.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*****Financial Reporting Entity.***

The Fund is a Fiduciary Investment Trust Fund. A fiduciary fund is used to account for governmental activities that are similar to those found in the private sector where the determination of net income is necessary or useful to sound financial administration. The generally accepted accounting principles ("GAAP") used for fiduciary funds are generally those applicable to similar businesses in the private sector. The Fund uses the accrual basis of accounting.

***Security Valuation of Financial Instruments.***

The assets of the Fund are carried at amortized cost (which approximates fair value) except for Cheyne (Gryphon) which is reflected at amortized cost adjusted for reserve transfer (see Note 7 and the List of Investments). All premiums and discounts on securities are amortized or accreted on a straight line basis.

***Security Transactions.***

Purchases and sales of investments are recorded on a trade date basis. Gains and losses on investments are realized at the time of the sales and are calculated on the basis of an identified block or blocks of securities having an identified amortized cost. Bond cost is determined by identified lot.

***Interest Income.***

Interest income, which includes amortization of premiums and accretion of discounts, is accrued as earned.

***Expenses.***

Operating and interest expenses of STIF are accrued as incurred.

## NOTES TO FINANCIAL STATEMENTS (Continued)

**Fiscal Year.**

The fiscal year of STIF ends on June 30.

**Distributions to Investors.**

Distributions to investors are earned on units outstanding from date of purchase to date of redemption. Income is calculated daily based upon the actual earnings of the Fund net of administrative expenses and, if applicable, an allocation to the Designated Surplus Reserve. Distributions are paid monthly within two business days of the end of the month, and are based upon actual number of days in a year. Shares are sold and redeemed at a constant \$1.00 net asset value per share, which is consistent with the per share net asset value of the Fund, excluding the Designated Surplus Reserve.

**Designated Surplus Reserve.**

While STIF is managed prudently to protect against losses from credit and market changes, the Fund is not insured or guaranteed by any government. Therefore, the maintenance of capital cannot be fully assured. In order to provide some protection to the shareholders of STIF from potential credit and market risks, the Treasurer has designated that a portion of each day's net earnings be transferred to the Designated Surplus Reserve (Reserve). Such amounts are restricted in nature and are not available for current distribution to shareholders. The amount transferred daily to the Designated Surplus Reserve is equal to 0.1 percent of end of day investment balance divided by the actual number of days in the year until the reserve account is equal to or greater than 1.0 percent of the daily investment balance. If net losses significant to the aggregate portfolio are realized, the Treasurer is authorized to transfer funds from the Reserve to Participants with Units Outstanding.

As of June 30, 2012, the balance in the Designated Surplus Reserve was \$47,360,778 which reflects \$4.0 million in contributions during the year.

**Estimates.**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities in the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 3: DEPOSIT AND INVESTMENT DISCLOSURES**

A formal investment policy (as adopted August 21, 1996, revised June 16, 2008 and April 17, 2009) specifies policies and guidelines that provide for the systematic management of STIF and prudent and productive investment of funds. STIF's investment practice is to invest all cash balances; as such, there was no uninvested cash at June 30, 2012. All securities of STIF are registered under the State Street Bank nominee name, Pond, Tide & Co., for the State of Connecticut nominee name, Conn. STIF & Co., and held by a designated agent of the State.

**Custodial Credit Risk – Deposits**

The custodial credit risk for deposits is the risk that in the event of a bank failure, the STIF's deposits may not be recovered. The STIF follows policy parameters that limit deposits in any one entity to a maximum of ten percent of total assets with a ten-business-day cure period. Further, the certificates of deposits must be issued from commercial banks whose short-term debt is rated at least A-1 by Standard and Poor's and F-1 by Fitch and whose long-term debt is rated at least A- and its issuer rating is at least "C".

Certificates of Deposit in banks are insured up to \$250,000 (through December 31, 2013), any amount above this limit is considered uninsured. Additionally, state banking regulation requires all Connecticut public depositories to segregate collateral against public deposits in an amount equal to at least ten percent of the outstanding deposit. As of fiscal year-end, certificates of deposit in the Short-Term Investment Fund totaled \$1,380,000,000. Of that amount, \$1,291,300,000 was exposed to custodial credit risk representing the portion that was uninsured and uncollateralized. Each of the CD's had daily put options that would allow STIF to redeem the investments on a same-day basis.

**CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**Interest Rate Risk – Investments**

Interest rate risk is the risk that changes in the general level of interest rates will adversely affect the fair value of an investment. The STIF's policy for managing interest rate risk is to limit investments to a very short weighted average maturity, not to exceed 90-days, and to comply with Standard and Poor's requirement that the weighted average maturity not exceed 60 days. The weighted-average maturity is calculated daily, and reported to Standard and Poor's weekly to ensure compliance. As of June 30, 2012 the weighted average maturity of the STIF was 33 days. The breakdown of the STIF's maturity profile is outlined below.

<b>Investments</b>	<b>Amortized Cost</b>	<b>Investment Maturity in Years</b>	
		<b>Less than One</b>	<b>One - Five</b>
Deposit Instruments:			
Fixed	\$1,380,000,000	\$1,380,000,000	\$ -
Floating Rate Notes			
Structured Investment Vehicles	20,261,137	20,261,137	-
Federal Agency Securities			
Fixed	814,770,684	784,774,046	29,996,638
Floaters	974,039,636	974,039,636	-
US Government Guaranteed or Insured	141,768,123	141,768,123	-
Government Money Market Funds	16,608,178	16,608,178	-
Repurchase Agreements	1,544,493,000	1,544,493,000	-
<b>Total</b>	<b><u>\$4,891,940,758</u></b>	<b><u>\$4,861,944,120</u></b>	<b><u>\$29,996,638</u></b>

Additionally, STIF is allowed by policy to invest in floating-rate debt securities. Further, investment in floating-rate securities with maturities greater than two years is limited to no more than 20 percent of the overall portfolio. For purposes of the weighted average maturity calculation and classification in the chart above, variable-rate securities are calculated using their interest rate reset dates. Because these securities reset frequently to prevailing market rates, interest rate risk is substantially reduced. As of fiscal year-end, the STIF portfolio held \$974 million in variable rate securities.

**Credit Risk of Debt Securities**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The STIF manages its credit risk by investing only in debt securities that fall within the highest short-term or long-term rating categories by nationally recognized rating organizations.

<b>Credit Quality Rating</b>	<b>Amortized Cost</b>	<b>Percentage of Amortized Cost</b>
AAAm	\$ 16,607,274	0.34%
AA / A-1+	551,768,123	11.28
A / A-1	2,484,493,904	50.79
N/R	50,261,137	1.02
Federal Agency and U.S. Govt / Govt Guaranteed Securities	1,788,810,320	36.57
<b>Total</b>	<b><u>\$4,891,940,758</u></b>	<b><u>100.00%</u></b>

**Concentration of Credit Risk**

The Short-Term Investment Fund limits the amount it may invest in any one issuer to an amount not to exceed 10 percent with a ten-business-day cure period other than overnight or two-business-day repurchase agreements and U.S. government and agency securities. As of June 30, 2012, the table below lists issuers with concentrations of greater than 5 percent. Other than repurchase agreements and investments in U.S. government agency securities, the concentrations which exceeded 10 percent as of June 30, 2012 resulted from a decline in the size of the overall portfolio. At the time of purchase, the securities were at or below 10 percent.

**CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

<b>Issuer</b>	<b>Fair Value</b>	<b>Percent of Total Portfolio</b>
Merrill Lynch	\$900,000,000	18.4%
RBS Securities	644,493,000	13.2
Federal Home Loan Bank	630,594,058	12.9
BB&T Company	500,000,000	10.2
Federal Farm Credit	448,770,393	9.2
JP Morgan Chase	440,000,000	9.0
TD Bank	440,000,000	9.0
Fannie Mae	402,608,784	8.2
Freddie Mac	307,779,753	6.3

**NOTE 4: CUSTODIAN**

State Street Bank was appointed as custodian for STIF effective February 1, 1996. STIF pays a percentage of the \$110,600 custodial fee charged to the Short-Term Investment Unit. This percentage is calculated quarterly by determining the STIF size relative to that of the total Short-Term Investment Unit.

**NOTE 5: ADMINISTRATION**

STIF is managed and administered by employees of the State of Connecticut Treasury. Salaries and fringe benefit costs as well as operating expenses are charged directly to the Fund.

**NOTE 6: DISTRIBUTIONS TO INVESTORS**

The components of the distributions to investors are as follows for the income earned during the twelve months ended:

<b><u>Distributions:</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>
July	\$690,438	\$940,472
August	741,866	1,002,183
September	709,215	996,828
October	1,018,729	928,080
November	754,162	993,506
December	665,569	1,031,156
January	438,608	1,003,165
February	473,242	995,211
March	482,688	939,497
April	651,575	871,218
May	437,660	827,009
June (Payable at June 30)	494,015	771,681
Total Distribution Paid & Payable	<u>\$7,557,767</u>	<u>\$11,300,006</u>

**NOTE 7: INVESTMENTS IN SECURITIES**

The following is a summary of investments in securities, at amortized cost and fair value as of June 30, 2012:

<b><u>Investment</u></b>	<b><u>Amortized Cost</u></b>	<b><u>Fair Value</u></b>
Deposit Instruments	\$1,380,000,000	\$1,380,000,000
Structured Investment Vehicles	20,261,137	22,082,337
Federal Agency Securities	1,788,810,320	1,789,752,990
Government Money Market Funds	16,608,178	16,608,178
US Government Guaranteed/Insured	141,768,123	141,753,664
Repurchase Agreements	<u>1,544,493,000</u>	<u>1,544,493,000</u>
TOTAL	<u>\$4,891,940,758</u>	<u>\$4,894,690,169</u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**

The Gryphon Funding pass-through note was received as a result of the Cheyne Finance restructuring in July 2008, and consists of the securities that were underlying the Cheyne notes. Since the restructuring, the Gryphon note has made monthly principal and interest payments. Due to uncertain market conditions, and because the Gryphon note represents a continuation of the Cheyne notes, we determined that continuation of the previous accounting treatment of applying all cash distributions to amortized cost maximizes recovery of value and, in our view, best protects the fund. During the fiscal year, cash payments totaled \$6.5 million, consisting of \$6.2 million in principal and \$0.3 million in interest. The interest payments are not included in Investment Income or in Distributions to Participants, but recorded against the amortized cost of this investment until such time as the relative principal and interest amounts, and their ultimate effect on the Fund, are known. As discussed in the fiscal year 2008 report, on December 5, 2008, \$24 million was transferred from the reserves to cover a reduction in value effective June 30, 2008. Amortized cost reflects cash distributions of \$55.7 million since April 2008 and the reserve transfer. The June 30, 2012, estimated fair value provided by the Gryphon custodian was \$22.1 million.

Repurchase agreements are agreements to purchase securities from an entity for a specified amount of cash and to resell the securities to the entity at an agreed upon price and time. They are used to enhance returns with minimal risk on overnight cash deposits of the Fund. Such transactions are only entered into with primary government securities dealers who report directly to the Federal Reserve Bank of New York and commercial banks that meet certain quality standards. All repurchase agreements are collateralized at between 100 percent and 102 percent of the securities' value. As of fiscal year end, STIF held \$1.544 billion in repurchase agreements.

In an effort to improve disclosures associated with derivative contracts, the Government Accounting Standards Board (GASB) issued GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, effective for the fiscal years beginning after June 15, 2009. Statement No. 53 requires that all derivatives be reported on the Statement of Net Assets and defines a derivative instrument as a financial instrument or other contract with all three of the following characteristics: a) it has (1) one or more underlyings (a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates or other variable) and (2) one or more notional amounts (a number of currency units, shares, bushels, pounds, or other units specified in the contract) b) it requires no initial investment or smaller than would be required for other types of contracts c) its terms require or permit net settlement, it can readily be settled net by a means outside the contract, or it provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

For the fiscal year ended June 30, 2012, the Short-Term Investment Fund held adjustable-rate corporate notes and U.S. government agency securities whose interest rates vary directly with short-term money market indices and are reset either daily, weekly, monthly or quarterly. Such securities allow the Fund to earn higher interest rates as market rates increase, thereby increasing fund yields and protecting against the erosion of market values from rising interest rates. These adjustable rate securities have similar exposures to credit and legal risks as fixed-rate securities from the same issuers.

**NOTE 8: CREDIT RATING OF THE FUND**

Throughout the year ended June 30, 2012, STIF was rated AAAM, its highest rating, by Standard and Poor's Corporation ("S&P"). In November 2011, following a review of the portfolio and STIF's investment policies, management and procedures, S&P reaffirmed STIF's AAAM rating and has continued to maintain this high rating throughout the current fiscal year. In order to maintain an AAAM rating, STIF adheres to the following guidelines:

- Weekly portfolio and market value calculations;
- Maintenance of credit quality standards for portfolio securities with at least 50% of such securities rated A-1+ or invested in overnight repurchase agreements with dealers or banks rated A-1;
- Ensuring adequate portfolio diversification standards with no more than 5% of the portfolio invested in an individual security and no more than 10% invested in an individual issuer, a ten-business-day cure period excluding one and two day repurchase agreements and U.S. government agency securities; and

**NOTES TO FINANCIAL STATEMENTS (Continued)**

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- A limit on the overall portfolio weighted average maturity (currently no more than 60 days).

It is the Treasurer's intention to take any and all such actions as are needed from time to time to maintain the AAAM rating.

**NOTE 9: SUBSEQUENT EVENTS**

The Fund management has evaluated the events and transactions that have occurred through December 31, 2012, the date the financial statements were available for issuance, and identified the following event that has occurred requiring recognition or disclosure in the financial statements.

As of June 30, 2012, STIF had an investment in Gryphon Funding, Ltd notes. On October 15, 2012, the Gryphon notes were sold.

# **Investment**

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# **Section**



# 2012

## short-term investment fund

### Fund Facts at June 30, 2012

**Investment Strategy/Goals:** To provide a safe, liquid and effective investment vehicle for the operating cash of the State, municipalities and other Connecticut political subdivisions.

**Performance Objective:** As high a level of current income as is consistent with, first, the safety of principal and, second, the provision of liquidity.

**Benchmarks:** iMoneyNet Money Fund Average™ - Rated First Tier Institutional Average (MFR) Index, Federal Reserve Three-Month CD, Federal Reserve Three-Month T-Bill.

**Date of Inception:** 1972

**Total Net Assets:** \$4.9 billion

**Internally Managed**

**External Management Fees:** None

**Expense Ratio:** Less than 3 basis points (includes internal management and personnel salaries)

### Description of the Fund

The Treasurer's Short-Term Investment Fund ("STIF" or the "Fund") is an AAAM rated investment pool of high-quality, short-term money market instruments managed by the Treasurer's Cash Management Division. Created in 1972, it serves as an investment vehicle for the operating cash of the State Treasury, State agencies and authorities, municipalities, and other political subdivisions of the State. (See Figure 1-1.) STIF's objective is to provide as high a level of current income as is consistent with, first, the safety of principal and, second, the provision of liquidity to meet participants' daily cash flow requirements. During the 2012 fiscal year, STIF's portfolio averaged \$4.8 billion.

STIF employs a top-down approach to developing its investment strategy for the management of its assets. Starting with the objectives of the Fund, STIF considers constraints outlined in its investment policy, which include among other parameters: liquidity management, limitations on the portfolio's weighted average maturity (see Figure 1-2), and permissible investment types. Next, an asset allocation is developed to identify securities that are expected to perform well in the current market environment. Over the long-term, STIF continually analyzes expectations of future interest rate movements and changes in the shape of the yield curve to ensure the most prudent and effective short-term money management for its clients. Ongoing credit analysis enables STIF to enhance its yield by identifying high-quality credits in undervalued sectors of the economy.

STIF pays interest monthly based on the daily earnings of the Fund less Fund expenses and an allocation to the Fund's Designated Surplus Reserve. The daily reserve allocations equal one-tenth of one percent of the Fund's daily balances divided by the number of days in the year, until the reserve totals one percent of the Fund's daily balance. The reserve on June 30, 2012, totaled \$47.4 million.

To help the Fund and its investors evaluate performance, STIF compares its returns to three benchmarks. The first is iMoneyNet Money Fund Average™ - Rated First Tier Institutional Average (MFR) Index. This index represents an average of institutional money market mutual funds rated AAAM that invest primarily in first-tier (securities rated A-1, P-1) taxable securities. While STIF's investment policy allows for somewhat greater flexibility than these SEC-registered funds, the MFR Index is the most appropriate benchmark against which to judge STIF's performance. During the past year, STIF's actual investment strategy has been considerably more restrictive than most private money funds and its own policy would permit. (See Figure 1-3.)

STIF's yields are also compared to the average Federal Reserve three-month T-Bill rate and the Federal Reserve three-month CD rate. The former benchmark is used to measure STIF's effectiveness in achieving yields in excess of a "risk-free" investment. The latter is shown for the benefit of STIF investors, many of whom invest in bank certificates of deposit. In viewing these benchmarks, it is important to keep in mind that yields of the CD index will exceed those of the T-Bill index due to a CD's slightly higher risk profile and comparatively lower liquidity. Additionally, it is important to note that the 90-day benchmarks exceed STIF's shorter average maturity. In order to maintain its AAAM rating, the STIF cannot exceed a 60-day weighted average maturity (WAM) limit. Furthermore, these benchmarks are "unmanaged" and are not affected by management fees or operating expenses. (See Figure 1-6.)

## CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

Among the Fund's several achievements during the 2012 fiscal year was the reaffirmation and continuation of its AAAm rating by Standard & Poor's. In S&P's view, "a fund rated 'AAAm' demonstrates extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit risk."

### Portfolio Characteristics

During fiscal 2012, the STIF portfolio continued its conservative investment approach that began in the first half of fiscal 2008. While the conservative strategy was originally taken to manage the risks of market volatility and uncertainty due to the sub-prime fallout, it was continued to manage the potential systemic risks resulting from the European sovereign and banking crisis. STIF's more conservative investment practices include increased liquidity, short average portfolio maturity, holdings of securities issued, guaranteed or insured by the U.S. government and federal agencies, and significantly restricted investments in corporate securities.

Accordingly, at year-end STIF held 60 percent of fund assets in overnight investments or investments that are available on a same-day basis. During the fiscal year, the Fund's weighted average maturity fluctuated between a low of 24 days and a high of 34 days. Seventy-one percent of STIF's assets were invested in securities issued, insured or guaranteed by the U.S. government or federal agencies, in repurchase agreements backed by such securities, or in money funds comprised of such securities.

The Fund ended the year with an 80 percent concentration in investments with short-term ratings of A-1+. Eighty-six percent of the Fund was invested in securities with maturities, or interest rate reset dates for adjustable rate securities, of less than 30 days, versus 79 percent at the previous year-end. The Fund's three largest security weightings included federal agency securities (36.6 percent), repurchase agreements (31.6), and deposit instruments (28.2 percent). (See Figure 1-5.)

### Market Review

Fiscal Year 2012 began with a dramatic event as Standard & Poor's downgraded U.S. sovereign debt one notch from AAA to AA+. While the bond market took the downgrade in stride, it raised the awareness that the U.S. fiscal situation was an issue with the rating agency and, if left unresolved, could have further rating ramifications. The 10-year US Treasury bond began the fiscal year at 3.18 percent while rallying to a low yield of 1.45 percent in June 2012.

There are two primary reasons for the strength of the market rally during the year. First, the debt crisis spreading throughout Europe resulted in a "flight to quality" by investors seeking a safe haven for their investments. The second is a result of the Federal Reserve Bank's quantitative easing, specifically "Operation Twist", which is an attempt to stimulate the economy by lowering interest rates. The "Operation Twist" program pursues this goal by buying longer-term Treasuries and agency mortgage-backed securities, and simultaneously selling some short-term issues it already held. As a result of both factors, ten-year Treasury rates have fallen from 3.18 percent to 1.27 percent.

Gross Domestic Product (GDP) fluctuated wildly during the fiscal year with low growth of 1.3 percent in both the first and fourth quarters of the year. However, the second quarter posted the biggest gain, 4.1 percent, in quarterly growth since a 5.1 percent gain in March 2006. For the entire fiscal year, GDP averaged a rate of 2.2 percent. Meanwhile, the unemployment rate ended the fiscal year at 8.2 percent, down modestly from the 9.1 rate at the beginning of the year, but a fraction higher than the 8.1 percent posted in April. During calendar year 2012, the economy is expected to grow at a rate of 2.2 percent, and the unemployment rate is expected to average 8.2 percent.

The Federal Reserve maintained its target range for the federal funds rate at 0.00 – 0.25 percent throughout the year. During that time the actual effective federal funds rose from an average of .07 percent to .11 percent.

## Performance Summary

For the one-year period ending June 30, 2012, STIF reported an annual total return of 0.16 percent, net of operating expenses and \$4.0 million in allocations to Fund reserves. Annual total return measures the total investment income a participant would earn with monthly compounding at the Fund's monthly net earned rate during the year. This figure exceeded that achieved by its benchmark, the MFR Index, which equaled 0.05 percent, by 11 basis points. In addition, STIF performance handily exceeded that of three-month T-Bills, which yielded 0.05 percent. The Fund's performance fell short of three-month CDs, which yielded 0.34 percent but lack STIF's daily liquidity. STIF's relative performance was also directly affected by the fund's more cautious investment strategy for most of the fiscal year that, while prudent under difficult market conditions, resulted in reductions in STIF's yield.

The principal reasons for STIF's continued strong performance, despite its cautious strategy, was the management of maturities within the portfolio as well as the low overall expense rate.

Over the long-term, STIF has performed exceptionally well. For the trailing three-, five-, seven-, and ten-year periods, STIF's compounded annual total return was 0.24 percent, 1.26 percent, 2.30 percent, and 2.12 percent, net of operating expenses and contributions to reserves, exceeding returns of each of its benchmarks for all time periods. Viewed on a dollar-for-dollar basis, had one invested \$10 million in STIF ten years ago, that investment would have been worth \$12.3 million at June 30, 2012, versus \$12.0 million for a hypothetical investment in the MFR Index. (See Figure 1-6.) During the past 10 years, STIF has earned \$124.7 million above its benchmark while adding \$33.7 million to its reserves.

## Risk Profile

STIF is considered extremely low risk for several reasons. First, its portfolio is comprised of high-quality, highly liquid securities, which insulate the Fund from default and liquidity risk. (See Figure 1-4.) Second, its relatively short average maturity reduces the Fund's price sensitivity to changes in market interest rates. Third, STIF has a strong degree of asset diversification by security type and issuer, as required by its investment policy, strengthening its overall risk profile. And finally, STIF's reserves are available to protect against security defaults or the erosion of security values due to dramatic and unforeseen market changes. As the primary short-term investment vehicle for the operating cash of the State, STIF has the ultimate confidence of the State government.

While STIF is managed diligently to protect against losses from credit and market changes, the Fund is not insured or guaranteed by any government. Therefore, the maintenance of capital cannot be fully assured.

## CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

Figure 1-1

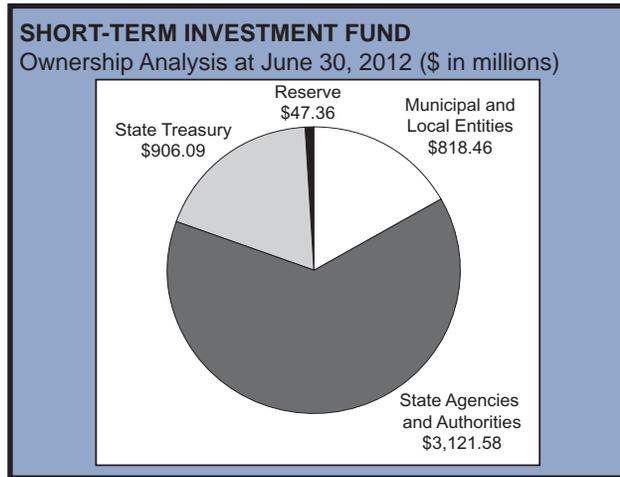


Figure 1-2

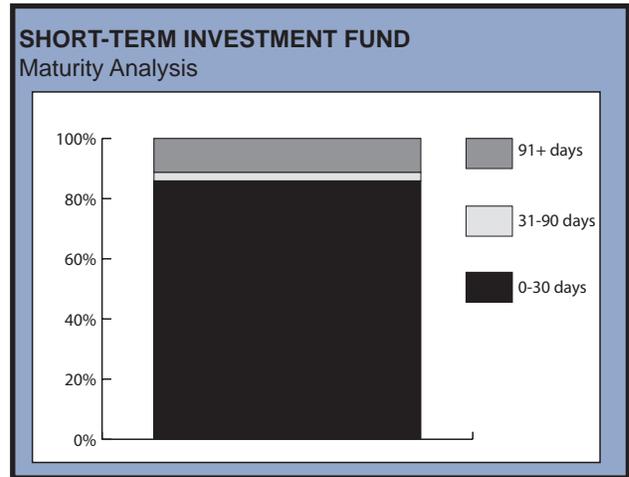


Figure 1-3

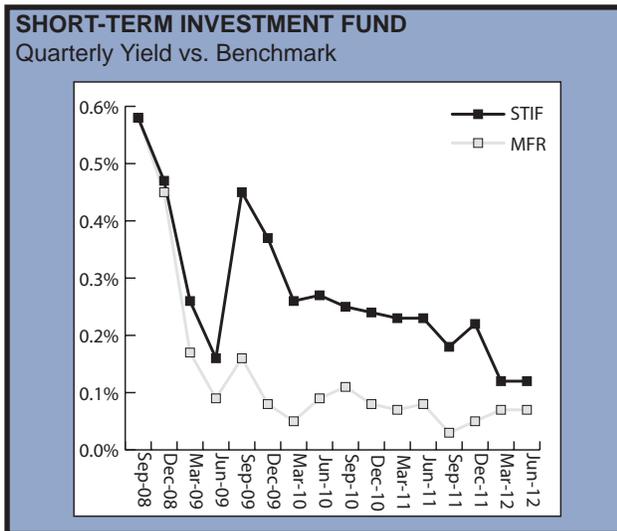


Figure 1-4

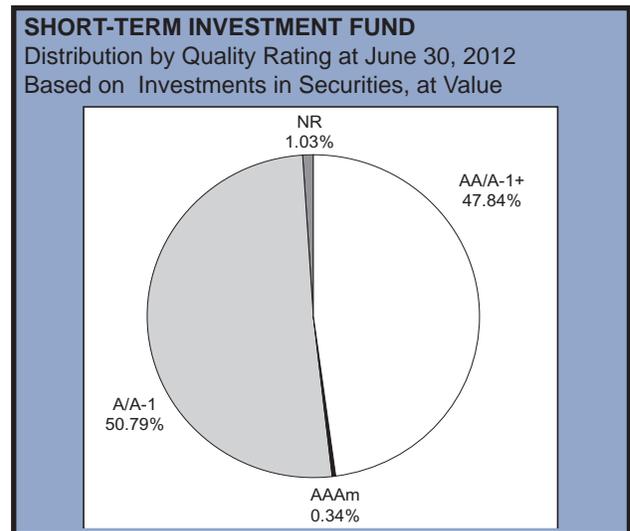


Figure 1-5

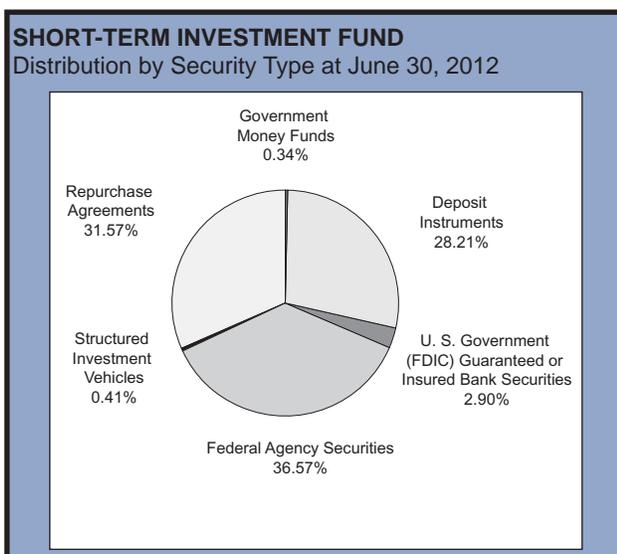


Figure 1-6

**SHORT-TERM INVESTMENT FUND**  
Period ending June 30, 2012

	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs
<b>Compounded Annual Total Return (%)</b>					
STIF	0.16	0.24	1.26	2.30	2.12
MFR Index*	0.05	0.07	1.11	2.09	1.84
Fed. Three-Month T-Bill	0.05	0.09	0.73	1.79	1.70
Fed. Three-Month CD	0.34	0.30	1.37	2.37	2.16
<b>Cumulative Total Return (%)</b>					
STIF	0.16	0.73	6.45	17.27	23.36
MFR Index*	0.05	0.22	5.66	15.54	20.06
Fed. Three-Month T-Bill	0.05	0.28	3.69	13.18	18.32
Fed. Three-Month CD	0.34	0.91	7.04	17.81	23.82

STIF uses a time-weighted linked rate of return formula to calculate rates of return.

Represents iMoneyNet Money Fund Average™ - Rated First Tier Institutional Average (MFR) Index.

**CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND**

**LIST OF INVESTMENTS AT JUNE 30, 2012**

Par Value	Security (Coupon, Maturity or Reset Date)	Yield %	Amortized Cost	Fair Value	Asset ID	Quality Rating
<b>FEDERAL AGENCY SECURITIES (36.57% OF TOTAL INVESTMENTS)</b>						
\$ 25,000,000	FANNIE MAE, 0.625, 09/24/12	0.10	\$ 25,027,275	\$ 25,029,875	31398A3N0	AA+
2,500,000	FANNIE MAE, 0.50, 10/30/12	0.15	2,502,888	2,502,865	31398A4T6	AA+
6,950,000	FANNIE MAE, 0.375, 12/28/12	0.14	6,956,179	6,958,020	31398A6F4	AA+
18,000,000	FANNIE MAE DISCOUNT NOTE, 0.00, 07/02/12	0.00	17,999,960	18,000,000	313588YW9	AA+
2,750,000	FANNIE MAE DISCOUNT NOTE, 0.00, 07/02/12	0.03	2,749,969	2,749,992	313588YZ2	AA+
7,700,000	FANNIE MAE DISCOUNT NOTE, 0.00, 07/02/12	0.03	7,699,923	7,699,977	313588YZ2	AA+
25,000,000	FANNIE MAE DISCOUNT NOTE, 0.00, 07/11/12	0.03	24,999,479	24,999,825	313588ZF5	AA+
26,440,000	FANNIE MAE DISCOUNT NOTE, 0.00, 07/11/12	0.03	26,439,412	26,439,815	313588ZF5	AA+
25,000,000	FANNIE MAE DISCOUNT NOTE, 0.00, 07/25/12	0.03	24,998,333	24,999,525	313588ZV0	AA+
15,000,000	FANNIE MAE DISCOUNT NOTE, 0.00, 08/01/12	0.05	14,998,450	14,999,370	313588A47	AA+
25,000,000	FANNIE MAE FLOATER, 0.32, 07/02/12	0.17	24,998,979	25,009,950	31398A3X8	AA+
2,735,000	FANNIE MAE FLOATER, 0.40, 07/02/12	0.18	2,737,918	2,738,525	3135G0AQ6	AA+
3,690,000	FANNIE MAE FLOATER, 0.40, 07/02/12	0.18	3,691,970	3,694,756	3135G0AQ6	AA+
6,500,000	FANNIE MAE FLOATER, 0.40, 07/02/12	0.18	6,503,856	6,508,379	3135G0AQ6	AA+
50,000,000	FANNIE MAE FLOATER, 0.40, 07/02/12	0.18	49,994,118	50,064,450	3135G0AQ6	AA+
50,000,000	FANNIE MAE FLOATER, 0.40, 07/02/12	0.18	49,998,499	50,064,450	3135G0AQ6	AA+
15,000,000	FANNIE MAE FLOATER, 0.38, 07/02/12	0.22	15,005,878	15,027,015	3135G0CB7	AA+
20,000,000	FANNIE MAE FLOATER, 0.38, 07/02/12	0.22	20,007,861	20,036,020	3135G0CB7	AA+
50,000,000	FANNIE MAE FLOATER, 0.38, 07/02/12	0.22	49,988,947	50,090,050	3135G0CB7	AA+
25,000,000	FANNIE MAE FLOATER, 0.22, 07/20/12	0.23	24,990,039	24,995,925	3135G0MH3	AA+
2,300,000	FEDERAL FARM CREDIT, 0.15, 02/15/13	0.28	2,298,776	2,298,208	3133EADF2	AA+
25,000,000	FEDERAL FARM CREDIT FLOATER, 0.22, 07/03/12	0.19	24,987,771	25,006,750	3133EAHS0	AA+
25,000,000	FEDERAL FARM CREDIT FLOATER, 0.40, 07/02/12	0.15	25,000,000	25,007,525	31331JYS6	AA+
21,300,000	FEDERAL FARM CREDIT FLOATER, 0.30, 07/02/12	0.19	21,298,343	21,318,510	31331KGY0	AA+
25,000,000	FEDERAL FARM CREDIT FLOATER, 0.30, 07/02/12	0.19	24,997,907	25,022,700	31331KJV3	AA+
25,000,000	FEDERAL FARM CREDIT FLOATER, 0.30, 07/02/12	0.19	24,997,907	25,022,700	31331KJV3	AA+
50,000,000	FEDERAL FARM CREDIT FLOATER, 0.27, 07/02/12	0.19	49,986,802	50,033,400	31331KNN6	AA+
50,000,000	FEDERAL FARM CREDIT FLOATER, 0.30, 07/02/12	0.21	49,978,349	50,047,300	31331KSP6	AA+
25,000,000	FEDERAL FARM CREDIT FLOATER, 0.40, 07/03/12	0.23	25,000,000	25,056,825	31331KY20	AA+
25,000,000	FEDERAL FARM CREDIT FLOATER, 0.40, 07/03/12	0.23	24,998,211	25,056,825	31331KY20	AA+
25,000,000	FEDERAL FARM CREDIT FLOATER, 0.23, 07/02/12	0.27	24,992,479	24,985,050	3133EAKC1	AA+
25,000,000	FEDERAL FARM CREDIT FLOATER, 0.25, 07/02/12	0.28	25,000,000	24,988,250	3133EAPV4	AA+
25,000,000	FEDERAL FARM CREDIT FLOATER, 0.25, 07/02/12	0.28	24,999,770	24,988,250	3133EAPV4	AA+
25,000,000	FEDERAL FARM CREDIT FLOATER, 0.25, 07/02/12	0.30	24,983,281	24,975,925	3133EAQZ4	AA+
25,000,000	FEDERAL FARM CREDIT FLOATER, 0.25, 07/02/12	0.30	24,983,281	24,975,925	3133EAQZ4	AA+
50,000,000	FEDERAL FARM CREDIT FLOATER, 0.29, 07/02/12	0.30	49,990,370	49,986,250	3133EASN9	AA+
4,000,000	FEDERAL HOME LOAN BANK, 0.25, 07/30/12	0.15	3,999,669	4,000,312	313374SV3	AA+
11,440,000	FEDERAL HOME LOAN BANK, 1.75, 08/22/12	0.15	11,463,570	11,465,397	3133XUE41	AA+
10,000,000	FEDERAL HOME LOAN BANK, 0.875, 08/22/12	0.15	10,007,767	10,010,060	3133XYWB7	AA+
25,000,000	FEDERAL HOME LOAN BANK, 0.14, 09/07/12	0.15	25,000,837	24,999,550	313376BY0	AA+
6,100,000	FEDERAL HOME LOAN BANK, 0.24, 10/10/12	0.15	6,100,948	6,101,495	313375QL4	AA+
10,000,000	FEDERAL HOME LOAN BANK, 0.23, 10/25/12	0.15	9,998,894	10,002,510	313375XL6	AA+
5,800,000	FEDERAL HOME LOAN BANK, 0.18, 11/14/12	0.15	5,800,589	5,800,638	313376BC8	AA+
10,000,000	FEDERAL HOME LOAN BANK, 0.20, 11/14/12	0.15	10,002,147	10,001,830	313376EN1	AA+
2,670,000	FEDERAL HOME LOAN BANK, 1.625, 11/21/12	0.15	2,685,166	2,685,195	3133XVEM9	AA+
10,000,000	FEDERAL HOME LOAN BANK, 0.20, 11/23/12	0.15	10,001,870	10,001,960	313376J97	AA+
8,000,000	FEDERAL HOME LOAN BANK, 0.30, 01/14/13	0.21	8,000,000	8,000,208	313376P66	AA+
5,100,000	FEDERAL HOME LOAN BANK, 0.17, 01/17/13	0.24	5,098,501	5,098,016	313376TA3	AA+
2,500,000	FEDERAL HOME LOAN BANK, 0.20, 01/18/13	0.24	2,499,525	2,499,410	313376MZ5	AA+
10,000,000	FEDERAL HOME LOAN BANK, 0.30, 01/18/13	0.20	10,000,000	10,003,000	313376QN8	AA+
1,100,000	FEDERAL HOME LOAN BANK, 0.16, 01/18/13	0.24	1,099,552	1,099,501	313376TY1	AA+
12,200,000	FEDERAL HOME LOAN BANK, 0.16, 01/24/13	0.25	12,194,899	12,193,619	313376VG7	AA+
10,000,000	FEDERAL HOME LOAN BANK, 0.16, 02/01/13	0.26	9,997,908	9,994,200	313376T96	AA+
4,000,000	FEDERAL HOME LOAN BANK, 0.17, 02/01/13	0.26	3,998,959	3,997,912	313376U37	AA+
10,600,000	FEDERAL HOME LOAN BANK, 0.18, 02/01/13	0.26	10,595,332	10,595,082	313376U78	AA+
10,000,000	FEDERAL HOME LOAN BANK, 0.18, 02/01/13	0.26	10,000,000	9,995,360	313376U78	AA+
7,200,000	FEDERAL HOME LOAN BANK, 0.19, 02/12/13	0.26	7,198,020	7,196,926	313378BD2	AA+
10,000,000	FEDERAL HOME LOAN BANK, 0.20, 02/20/13	0.26	10,000,000	9,996,210	313376VS1	AA+
10,000,000	FEDERAL HOME LOAN BANK, 0.25, 02/28/13	0.26	10,000,000	9,999,340	313378CP4	AA+
10,000,000	FEDERAL HOME LOAN BANK, 0.19, 02/28/13	0.26	9,998,083	9,995,410	313378EW7	AA+
4,610,000	FEDERAL HOME LOAN BANK, 0.20, 03/01/13	0.26	4,609,447	4,608,165	313378CM1	AA+
2,000,000	FEDERAL HOME LOAN BANK, 0.30, 03/19/13	0.26	2,000,875	2,000,570	313375NC7	AA+
10,000,000	FEDERAL HOME LOAN BANK, 0.125, 03/21/13	0.26	9,990,036	9,990,300	313378S28	AA+
8,250,000	FEDERAL HOME LOAN BANK, 1.00, 03/27/13	0.26	8,295,677	8,294,864	313372RK2	AA+

**CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND**

**LIST OF INVESTMENTS AT JUNE 30, 2012 (Continued)**

Par Value	Security (Coupon, Maturity or Reset Date)	Yield %	Amortized Cost	Fair Value	Asset ID	Quality Rating
10,000,000	FEDERAL HOME LOAN BANK, 0.22, 04/09/13	0.26	9,998,212	9,996,930	313378ME8	AA+
10,000,000	FEDERAL HOME LOAN BANK, 0.25, 04/11/13	0.26	9,999,378	9,999,220	313378YH8	AA+
10,000,000	FEDERAL HOME LOAN BANK, 0.24, 04/12/13	0.26	9,998,982	9,998,450	313378W49	AA+
10,000,000	FEDERAL HOME LOAN BANK, 0.24, 04/16/13	0.26	10,000,518	9,998,420	313378WY3	AA+
15,000,000	FEDERAL HOME LOAN BANK, 0.23, 04/25/13	0.26	15,000,000	14,996,340	3133797M5	AA+
10,000,000	FEDERAL HOME LOAN BANK, 0.20, 04/30/13	0.26	9,995,715	9,995,040	313376XG5	AA+
10,000,000	FEDERAL HOME LOAN BANK, 0.22, 05/03/13	0.26	9,998,907	9,996,660	3133796A2	AA+
10,000,000	FEDERAL HOME LOAN BANK, 0.30, 05/07/13	0.31	10,000,000	9,998,990	313378Z61	AA+
10,000,000	FEDERAL HOME LOAN BANK, 0.30, 05/08/13	0.32	10,000,000	9,998,200	313378Z79	AA+
15,000,000	FEDERAL HOME LOAN BANK, 0.23, 05/10/13	0.26	14,998,307	14,996,160	313379FF1	AA+
10,000,000	FEDERAL HOME LOAN BANK, 0.30, 05/16/13	0.26	10,005,415	10,003,480	313376D36	AA+
10,000,000	FEDERAL HOME LOAN BANK, 0.22, 05/17/13	0.26	9,997,984	9,996,500	313379BZ1	AA+
10,000,000	FEDERAL HOME LOAN BANK, 0.25, 06/07/13	0.26	10,000,000	9,998,630	313379F53	AA+
10,000,000	FEDERAL HOME LOAN BANK, 0.30, 06/10/13	0.34	10,000,000	9,996,650	313379GP8	AA+
10,000,000	FEDERAL HOME LOAN BANK, 0.30, 06/10/13	0.34	10,000,000	9,996,650	313379GP8	AA+
15,000,000	FEDERAL HOME LOAN BANK, 0.30, 06/13/13	0.31	15,000,000	14,999,010	313379LD9	AA+
15,000,000	FEDERAL HOME LOAN BANK, 0.28, 06/14/13	0.29	15,000,000	14,998,935	313379JK6	AA+
10,000,000	FEDERAL HOME LOAN BANK, 0.30, 06/14/13	0.32	10,000,000	9,998,340	313379K81	AA+
15,000,000	FEDERAL HOME LOAN BANK, 0.30, 06/14/13	0.38	15,000,000	14,987,925	313379PF0	AA+
10,000,000	FEDERAL HOME LOAN BANK, 0.25, 06/20/13	0.27	9,999,224	9,998,360	313379VP1	AA+
10,000,000	FEDERAL HOME LOAN BANK, 0.25, 06/21/13	0.27	\$9,997,759	9,998,080	313379GH6	AA+
10,000,000	FEDERAL HOME LOAN BANK, 0.24, 06/28/13	0.27	9,997,680	9,997,080	313379Y78	AA+
10,000,000	FEDERAL HOME LOAN BANK, 0.29, 07/01/13	0.32	10,000,000	9,996,770	313379HH5	AA+
10,000,000	FEDERAL HOME LOAN BANK, 0.25, 07/01/13	0.27	9,996,638	9,997,940	313379YQ6	AA+
10,000,000	FEDERAL HOME LOAN BANK, 0.30, 07/03/13	0.34	10,000,000	9,995,660	313379RE1	AA+
25,000,000	FED HOME LOAN BANK DISC NOTE, 0.00, 07/18/12	0.03	24,999,115	24,999,675	313384ZN2	AA+
50,000,000	FED HOME LOAN BANK FLOATER, 0.29, 07/02/12	0.23	50,000,000	50,064,900	313374WU0	AA+
25,000,000	FED HOME LOAN BANK FLOATER, 0.19, 07/25/12	0.21	24,980,443	24,991,025	313376VV4	AA+
25,000,000	FED HOME LOAN BANK FLOATER, 0.16, 07/25/12	0.21	24,983,551	24,977,000	3133784J7	AA+
1,490,000	FREDDIE MAC, 1.125, 07/27/12	0.19	1,491,112	1,490,967	3137EACK3	AA+
25,000,000	FREDDIE MAC DISCOUNT NOTE, 0.00, 07/09/12	0.03	24,999,556	24,999,850	313396ZD8	AA+
15,493,000	FREDDIE MAC DISCOUNT NOTE, 0.00, 07/16/12	0.03	15,492,484	15,492,814	313396ZL0	AA+
25,000,000	FREDDIE MAC DISCOUNT NOTE, 0.00, 07/17/12	0.03	24,999,333	24,999,675	313396ZM8	AA+
25,000,000	FREDDIE MAC DISCOUNT NOTE, 0.00, 08/13/12	0.05	24,995,222	24,998,550	313396B85	AA+
1,000,000	FREDDIE MAC DISCOUNT NOTE, 0.00, 08/27/12	0.05	999,842	999,922	313396D67	AA+
19,146,000	FREDDIE MAC, 2.125, 09/21/12	0.15	19,229,700	19,228,921	3137EACE7	AA+
10,250,000	FREDDIE MAC, 0.375, 11/30/12	0.09	10,257,026	10,261,849	3137EACP2	AA+
5,000,000	FREDDIE MAC, 0.75, 12/28/12	0.21	5,013,664	5,013,215	3134G1P65	AA+
50,000,000	FREDDIE MAC FLOATER, 0.34, 07/02/12	0.19	49,992,013	50,038,200	3134G1U69	AA+
30,000,000	FREDDIE MAC FLOATER, 0.30, 07/02/12	0.23	29,989,863	30,042,390	3134G2XL1	AA+
50,000,000	FREDDIE MAC FLOATER, 0.32, 07/02/12	0.24	49,988,143	50,082,500	3134G2B50	AA+
50,000,000	FREDDIE MAC FLOATER, 0.39, 07/02/12	0.26	49,993,092	50,130,900	3134G3AG5	AA+
<b>\$1,788,814,000</b>			<b>\$1,788,810,320</b>	<b>\$1,789,752,989</b>		
<b>DEPOSIT INSTRUMENTS (28.21% OF TOTAL INVESTMENTS)<sup>(1)</sup></b>						
\$20,000,000	BB&T COMPANY, 0.25, 07/02/12	0.25	\$20,000,000	\$20,000,000	N/A	A-1
60,000,000	BB&T COMPANY, 0.25, 07/02/12	0.25	60,000,000	60,000,000	N/A	A-1
70,000,000	BB&T COMPANY, 0.25, 07/02/12	0.25	70,000,000	70,000,000	N/A	A-1
100,000,000	BB&T COMPANY, 0.25, 07/02/12	0.25	100,000,000	100,000,000	N/A	A-1
150,000,000	BB&T COMPANY, 0.25, 07/02/12	0.25	150,000,000	150,000,000	N/A	A-1
100,000,000	BB&T COMPANY, 0.25, 07/02/12	0.25	100,000,000	100,000,000	N/A	A-1
220,000,000	JP MORGAN CHASE BANK, N.A., 0.30, 07/02/12	0.30	220,000,000	220,000,000	N/A	A-1
220,000,000	JP MORGAN CHASE BANK, N.A., 0.30, 07/02/12	0.30	220,000,000	220,000,000	N/A	A-1
15,000,000	T.D. BANK, N.A., 0.25, 07/02/12	0.25	15,000,000	15,000,000	N/A	A-1+
15,000,000	T.D. BANK, N.A., 0.25, 07/02/12	0.25	15,000,000	15,000,000	N/A	A-1+
15,000,000	T.D. BANK, N.A., 0.35, 07/02/12	0.35	15,000,000	15,000,000	N/A	A-1+
50,000,000	T.D. BANK, N.A., 0.42, 07/02/12	0.42	50,000,000	50,000,000	N/A	A-1+
130,000,000	T.D. BANK, N.A., 0.32, 07/02/12	0.32	130,000,000	130,000,000	N/A	A-1+
135,000,000	T.D. BANK, N.A., 0.32, 07/02/12	0.32	135,000,000	135,000,000	N/A	A-1+
35,000,000	T.D. BANK, N.A., 0.31, 07/02/12	0.31	35,000,000	35,000,000	N/A	A-1+
45,000,000	T.D. BANK, N.A., 0.31, 07/02/12	0.31	45,000,000	45,000,000	N/A	A-1+
<b>\$1,380,000,000</b>			<b>\$1,380,000,000</b>	<b>\$1,380,000,000</b>		
<b>GOVERNMENT MONEY FUND (0.34% OF TOTAL INVESTMENTS)</b>						
\$16,607,274	MORGAN STANLEY GOV'T FUND, 0.05, 07/02/12	0.05	\$16,607,274	\$16,607,274	N/A	AAAm
\$16,607,274			\$16,607,274	\$16,607,274		

**CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND**

**LIST OF INVESTMENTS AT JUNE 30, 2012 (Continued)**

Par Value	Security (Coupon, Maturity or Reset Date)	Yield %	Amortized Cost	Fair Value	Asset ID	Quality Rating
<b>REPURCHASE AGREEMENTS (31.57% OF TOTAL INVESTMENTS)</b>						
\$644,493,000	RBS SECURITIES INC., 0.14, 07/02/12	0.14	\$644,493,000	\$644,493,000	N/A	A-1
900,000,000	MERRILL LYNCH, 0.16, 07/02/12	0.16	900,000,000	900,000,000	N/A	A-1
\$1,544,493,000			\$1,544,493,000	\$1,544,493,000		
<b>U. S. GOVERNMENT (FDIC) GUARANTEED OR INSURED BANK SECURITIES (2.90% OF TOTAL INVESTMENTS)</b>						
\$35,000,000	ALLY FINANCIAL, 1.75, 10/30/12	0.22	\$35,180,619	\$35,170,870	36185JAA7	AA+
3,075,000	CITIBANK, 2.125, 07/12/12	0.22	3,076,867	3,076,138	17313YAG6	AA+
4,763,000	CITIBANK, 2.125, 07/12/12	0.22	4,765,677	4,764,762	17313YAG6	AA+
7,152,000	CITIBANK, 2.125, 07/12/12	0.22	7,155,975	7,154,646	17313YAG6	AA+
20,000,000	CITIBANK, 2.125, 07/12/12	0.22	20,011,146	20,007,400	17313YAG6	AA+
10,000,000	CITIBANK, 1.875, 11/15/12	0.12	10,059,492	10,063,370	17313YAN1	AA+
6,000,000	FEDERALLY INSURED CUST. ACCT., 0.25, 07/03/12 <sup>(3)</sup>	0.25	6,000,000	6,000,000	N/A	N/R
24,000,000	FEDERALLY INSURED CUST. ACCT., 0.25, 07/03/12 <sup>(3)</sup>	0.25	24,000,000	24,000,000	N/A	N/R
3,782,000	GE CAPITAL, 2.00, 09/28/12	0.22	3,797,940	3,797,502	36967HBB2	AA+
10,000,000	US CENTRAL FED CREDIT UNION, 1.90, 10/19/12	0.15	10,050,911	10,050,390	90345AAC6	AA+
17,580,000	US CENTRAL FED CREDIT UNION, 1.90, 10/19/12	0.15	17,669,494	17,668,586	90345AAC6	AA+
\$141,352,000			\$141,768,123	\$141,753,664		
<b>STRUCTURED INVESTMENT VEHICLES (0.41% OF TOTAL INVESTMENTS)<sup>(2)</sup></b>						
\$84,099,830	GRYPHON FUNDING LTD, 0.00, 07/05/12	0.00	\$20,261,137	\$22,082,337	N/A	N/R
\$84,099,830			\$20,261,137	\$22,082,337		
<b>LIQUIDITY MANAGEMENT CONTROL SYSTEM (0.00% OF TOTAL INVESTMENTS)</b>						
\$904	LMCS, 0.01, 07/02/12	0.01	\$904	\$904	N/A	A-1
\$904			\$904	\$904		
<b>\$4,955,367,008</b>	<b>TOTAL INVESTMENT IN SECURITIES</b>		<b>\$ 4,891,940,758</b>	<b>\$ 4,894,690,169</b>		

- (1) Deposit instruments have daily put option.
- (2) The Gryphon Funding Ltd. note was sold on October 12, 2012.
- (3) Security has a weekly put option.

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

SCHEDULE OF MANAGEMENT FEES AT JUNE 30, 2012

<u>Category</u>	<u>Amount</u>
Internal Management Fees	\$1,204,938
Professional & Other Miscellaneous Expenses	<u>110,600</u>
<b>Total:</b>	<b><u>\$1,315,538</u></b>

*Internal management fees include payroll, lease service, subscriptions, supplies, telephone and other. External professional fees include custodian and investor services.*

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

SCHEDULE OF PARTICIPANTS BY CONCENTRATION AT JUNE 30, 2012

Type	Number of Accounts	Market Value
Municipal and Local Entities	674	\$ 818,542,205
State Treasury	52	906,091,850
State Agencies and Authorities	<u>429</u>	<u>3,121,577,105</u>
Total	<u>1,155</u>	<u>\$4,846,211,160</u>

Participant Net Asset Value, Offering Price and Redemption Price  
per Share (\$4,846,211,160 in Net Assets divided by 4,846,211,160) \$ 1.00

Note: Does not include designated surplus reserve.

## Investment Policy

As adopted August 21, 1996 and revised June 16, 2008 and April 17, 2009.

### A. Background

The Treasurer's Short-Term Investment Fund (STIF) is an investment pool of high-quality, short-term money market instruments for state and local governments. Operating since 1972 in a manner similar to a money market mutual fund, STIF's purpose is to provide a safe, liquid and effective investment vehicle for the operating cash of the State Treasury, state agencies and authorities, municipalities, and other political subdivisions of the state.

All State, local and political subdivisions of the State are authorized to invest in STIF by (CGS) 3-27a and 3-27b.

### B. Purpose

The purpose of this document is to specify the policies and guidelines that provide for the systematic management of STIF and the prudent and productive investment of funds.

### C. Investment Objectives

STIF seeks as high a level of current income as is consistent with, first, the safety of principal invested by the State, municipalities and others, and, second, the provision of liquidity to meet participants' daily cash flow requirements.

### D. Safety of Principal

Safety of principal, STIF's primary objective, shall be pursued in a number of ways.

1. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio by protecting against credit risks (from security defaults) and the erosion of market prices (from rising interest rates).
2. The Fund's investments shall be made in conformance with prudent guidelines for allowable instruments, credit quality and maturities. See Section H.
3. STIF shall maintain adequate diversification of instruments, issuers, industries and maturities to protect against significant losses from credit risks and market changes. See Section H.
4. All securities shall be held by a third-party custodian.
5. All transactions shall be handled on the basis of delivery vs. payment to a custodian bank.
6. All repurchase agreements shall be fully collateralized, with a custodian bank receiving delivery of the collateral.
7. Reverse repurchase agreements may be used only to meet temporary liquidity requirements of the Fund and may not exceed five percent of total Fund assets. See Section H.
8. STIF shall maintain a designated surplus reserve to provide an added layer of security. For the period June through November 1996 a pro-rated allocation to the reserve will be paid from investment returns that will equal, on an annualized basis, one-tenth of one percent of the fund's total investments until the reserve equals one percent of investments. Effective December 1, 1996, daily allocations to the designated surplus reserve will be paid from investment returns and will equal, on an annualized basis, one-tenth of one percent of the fund's investments until the reserve equals one percent of investments. If net losses significant to the aggregate portfolio are realized, they shall be charged against the designated surplus reserve, as discussed in Section Q. This reserve has never been drawn upon in STIF's 24-year history.

While STIF — which consists predominantly of funds for which the Treasurer is sole trustee — is managed diligently to protect against losses from credit and market changes, and though deposits are backed by high-quality and highly-liquid short-term securities, the Fund is not insured or guaranteed by any government and the maintenance of capital cannot be fully assured.

## E. Liquidity

The portfolio shall be structured through sufficient investments in overnight and highly-marketable securities to allow complete liquidity for participants. In addition, reverse repurchase agreements totaling up to five percent of Fund assets may be used to meet temporary liquidity requirements.

Participants have full and quick access to all of their funds. Participants may make same-day (up to 10:30 a.m.) deposits and withdrawals of any size. Withdrawals generally are sent via Fed wire, thus funds are available for use on the day of withdrawal.

In addition, deposits and withdrawals may be made through the ACH system on a next-day basis, deposits may be made by check through the mail, and withdrawals may be made by check. No transaction fees are charged on deposits or withdrawals by wire or ACH. Withdrawals by check are charged a fee, as specified in the participant manual.

## F. Yield

STIF's investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account investment risk constraints and the liquidity requirements of the Fund.

The portfolio shall be managed with the objective of exceeding the average of three-month U.S. Treasury Bill rates for the equivalent period. This index is considered a benchmark for near-riskless investment transactions and, therefore, comprises a minimum standard for the portfolio's rate of return. The investment program shall seek to augment returns above this threshold, consistent with stated risk limitations and prudent investment principles.

While STIF shall not make investments for the purpose of trading or speculating as the dominant criterion, STIF shall seek to enhance total portfolio return through active portfolio management. The prohibition on speculative investments precludes pursuit of gain or profit through unusual risk. Trading in response to changes in market value or market direction, however, is warranted under active portfolio management.

## G. Prudence

Investments shall be made with the care, skill, prudence, and diligence — under circumstances then prevailing — that prudent persons acting in like capacities and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by STIF's investment officials shall be the "prudent expert" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion in writing and appropriate action is taken to control adverse developments.

## H. Investment Guidelines

All investments must be made in instruments authorized by CGS 3-27c - 3-27e. In addition, the Treasurer has adopted the investment guidelines that follow. Unless otherwise indicated, references to credit ratings are to those of Standard & Poor's.

1. STIF may invest in the following securities:
  - a. Instruments issued, guaranteed or insured by the U.S. government or federal agencies.
  - b. Certificates of deposit of commercial banks in the United States whose short-term debt is rated at least A-1 and TBW-1 (by Thomson Bank Watch) and whose long-term debt is rated at least A- and C (by Thomson Bank Watch).
  - c. Certificates of deposit of U.S. branches of foreign banks with short-term debt ratings of at least A-1 and TBW-1 and long-term debt ratings of at least A and B/C (by Thomson Bank Watch).
  - d. Bankers' acceptances of those banks meeting the criteria in b. and c. above.

## CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

- e. Fully-collateralized repurchase agreements with primary dealers of the Federal Reserve with short-term debt ratings of at least A-1, or qualified domestic commercial banks meeting the criteria in b. above, with possession of collateral by a custodian bank.
  - f. Commercial paper of companies that have short-term debt rated at least A-1 and P-1 (by Moody's) and long-term debt rated at least AA- and Aa3 (by Moody's).
  - g. Corporate or asset-backed securities rated at least A-1/P-1 and AA-/Aa3.
  - h. Asset-backed securities with maturities of under one year rated at least A-1/P-1.
  - i. Money market mutual funds or similar investment pools, comprised of securities permitted under this investment policy and managed to maintain a constant share value, rated AAAM.
  - j. A line of credit of up to \$100 million with the Connecticut Student Loan Foundation. Any resulting loans shall be fully collateralized (at 102 percent) by student loans with interest and principal 98 percent federally guaranteed.
  - k. The portfolio currently includes securities issued by the State of Israel, which mature in less than six years, and which, in the aggregate, total less than .5 percent of the portfolio value. These notes' interest rates are reset semi-annually at the prime rate minus 50 basis points. These securities, as currently structured, will not be purchased in the future.
  - l. Notwithstanding the approved investments enumerated above, STIF may hold securities or other assets received as a result of a restructuring of securities that were, when originally purchased, among the list of approved investments set forth herein, following consultation with an outside investment advisor. The Treasurer will notify investors of such situations within two (2) business days of the receipt of such securities or assets.
2. Reverse repurchase agreements, in the aggregate, may not exceed five percent of net assets at the time of execution. While any reverse repurchase agreement is outstanding, new investments must match the maturity of the shortest-term outstanding reverse repurchase agreement. Reverse repurchase agreements are to be used only to meet temporary liquidity requirements of the Fund.
  3. No investments may be made in "derivative" securities such as futures, swaps, options, interest-only and principal-only mortgage-backed securities, inverse floaters, CMT floaters, leveraged floaters, dual index floaters, COFI floaters, and range floaters. These types of securities can experience high price volatility with changing market conditions, and their market values may not return to par even at the time of an interest rate adjustment.

Investments may be made in adjustable rate securities whose interest rates move in the same direction and in the same amount as standard short-term money market interest rate benchmarks, such as Fed Funds, LIBOR, Treasury bills, one-month CDs, one-month commercial paper and the prime rate, and conform with STIF's other credit and maturity standards. Interest rate reset periods may not exceed six months. The values of these securities tend to return to par upon the scheduled adjustment of interest rates. Some parties in the financial services industry consider these types of adjustable rate securities to be derivatives, others do not.

U.S. Treasury Separate Trading of Registered Interest and Principal Securities ("STRIPS") are not considered derivatives and may be purchased. These instruments are subject to the same interest rate risks as U.S. Treasury securities of the same duration. STRIPS are fundamentally different from mortgage-backed and other interest-only or principal-only securities that are subject to unscheduled prepayments of principal.

4. All investments must be made in U.S. dollar-denominated securities.
5. The dollar-weighted average portfolio maturity (including interest rate reset periods) may not exceed 90 days. Individual maturities may not exceed five years.
6. STIF shall diversify its investments to avoid incurring unreasonable risks inherent in overinvesting in specific instruments, industry segments, individual issuers or maturities. Diversification strategies shall include:

## CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

- a. At the time of purchase, no more than five percent of the overall portfolio may be invested in an individual security, other than overnight or two-business-day repurchase agreements and U.S. government and agency securities.
  - b. At the time of purchase, no more than 10 percent of the overall portfolio may be invested in securities of a single bank or corporation, other than overnight or two-business-day repurchase agreements and U.S. government and agency securities.
  - c. There is no limitation on the percentage of assets that may be invested in securities of the United States government, its agencies or instrumentalities, or in overnight or two-business-day repurchase agreements.
  - d. At the time of purchase, no more than 25 percent of the overall portfolio may be invested in any industry other than the financial services industry.
  - e. At the time of purchase, no more than 50 percent of the overall portfolio may be invested in the combined total of commercial paper and non-asset-backed corporate notes.
  - f. At the time of purchase, no more than 20 percent of the overall portfolio may be invested in floating rate securities with final maturities in excess of two years.
  - g. At the time of purchase, no more than five percent of the overall portfolio may be invested in an individual money market mutual fund or similar investment pool.
  - h. At the time of purchase, no more than 10 percent of the overall portfolio may be invested in money market mutual funds and similar investment pools.
  - i. At the time of purchase, investments in securities that are not readily marketable, other than securities that mature within seven days, may not exceed 10 percent of the fund's overall portfolio.
  - j. At least 75 percent of the overall portfolio shall be invested in securities rated A-1+ or in overnight repurchase agreements with dealers or banks rated A-1.
7. The Treasurer intends to operate STIF in such a manner as to maintain its AAAM credit rating from Standard & Poor's, or a similar rating from another nationally-recognized credit rating service recognized by the State Banking Commissioner.
  8. Investment decisions shall be based on the relative and varying yields and risks of individual securities and the Fund's liquidity requirements.

### **I. Interest Payments**

Effective December 1, 1996:

STIF declares and accrues investor interest daily based on actual STIF earnings (including gains and losses), less expenses and transfers to the designated surplus reserve. Interest is paid monthly through direct distribution or reinvestment. Earned rates are available on a next-day basis. All rates are calculated and quoted on the basis of the actual number of days in a year (an "actual-over-actual" basis) and reported in accordance with guidelines of the Association for Investment Management and Research (AIMR).

### **J. Administrative Costs**

STIF is provided to participants without sales or management fees. Administrative costs are paid from investment earnings, and all STIF participants (including the state and local entities) share in covering the Fund's expenses in proportion to the size of their investments. Costs have run at between two and three basis points (or \$2-3 per \$10,000 invested).

## **K. Delegation of Authority**

The Short-Term Investment Unit within the Treasury's Cash Management Division manages STIF's investments. Deposits, withdrawals, participant record-keeping and the distribution of interest are handled by State Street Bank and Trust under the supervision of the STIF Administration Unit within the Treasury's Cash Management Division.

## **L. Daily Confirmations**

Confirmations of daily deposits and withdrawals are sent the day after the transaction.

## **M. Monthly Statements**

Monthly statements of balances, account activity, and paid interest are mailed to participants by the 10th day of each month.

## **N. Reports**

Quarterly and annual reports describing STIF's yields, performance relative to its primary benchmark (IBC First Tier Institutions-Only Rated Money Fund Index), and investments shall be provided to all participants. A detailed portfolio listing, data on 90-day Treasury bills and 90-day certificates of deposit, and commentary on economic conditions shall be provided with each report. The reports are available on the World Wide Web at: <http://www.state.ct.us/ott>

## **O. Participant Manual**

A manual describing STIF's operating procedures, instructions for opening and closing accounts and making deposits and withdrawals, and methods of distributing interest, is provided to all participants. There currently are no restrictions on the size or number of accounts or transactions.

## **P. Audit**

The Auditors of Public Accounts audit STIF's financial statements and operating procedures annually. Copies of audit opinions and reports will be provided to all participants.

## **Q. Portfolio Valuation**

STIF's values and yields are accounted for on an amortized-cost basis. Market values of all securities, except for those securities listed in Sections H.1.j and H.1.k, above, are calculated on a weekly basis. Significant deviations of market values to amortized costs shall be reported as follows:

1. **First Level Notification.** If the market value of the overall investment portfolio, based on reports from the custodian, drops below 99.75 percent of the amortized cost value of the overall investment portfolio, or if the ratio of the market value of the overall portfolio to the outstanding participant units drops below 100.50 percent, the Principal Investment Officer would notify the Assistant Treasurer for Cash Management, the Assistant Treasurer for Pension Funds Management, and the Treasurer's Investment Committee at the first weekly meeting following such determination.
2. **Second Level Notification.** If the market value of the overall investment portfolio, based on reports from the custodian, drops below 99.50 percent of the amortized cost value of the overall investment portfolio, or if the ratio of the market value of the overall portfolio to the outstanding participant units drops below 100.25 percent, the Principal Investment Officer would notify, as soon as practical, the Treasurer, Deputy Treasurer, Assistant Treasurer - Chief of Staff, Assistant Treasurer for Cash Management, Assistant Treasurer for Pension Funds Management, and the Treasurer's Investment Committee. The Treasurer's Investment Committee would then meet in special session to review the circumstances surrounding the fall in one or both ratios, and it would review every security held by the fund. If this second level notification resulted from a significant increase in fund size that resulted in a proportionate decrease in the relative size of the designated surplus reserve, then portfolio or other changes may not be required. If this second level notification resulted from the decline in market values of securities, then the Investment Committee would consider selling securities that had fallen in value and making use of the designated surplus reserve.

3. Investor Notification. If the ratio of the market value of the overall portfolio to the outstanding participant units drops below 99.75 percent, the Treasurer would notify all STIF investors of the situation and the actions being undertaken to protect against further reductions.

## **R. Internal Controls**

The Treasury shall establish and maintain a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by the Auditors of Public Accounts. The controls shall be designed to prevent and control losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees and officers.

## **S. Cash Management Advisory Board**

STIF's investment practices and performance, including the documentation discussed in Section N, shall be reviewed on a quarterly basis by the Treasurer's Cash Management Advisory Board.

## **T. Financial Dealers and Institutions**

The STIF Investment Officer shall develop criteria for selecting brokers and dealers. All repurchase agreement transactions will be conducted through primary dealers of the Federal Reserve Bank of New York rated at least A-1 and qualified banks (as defined in Sections H.1.b and H.1.c) which have executed master repurchase agreements with the Treasury.

## **U. Ethics**

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose in writing to the Treasurer, or the Treasurer's compliance officer, any material financial interests in financial institutions that conduct business with STIF, and they shall further disclose any large personal financial/investment positions that could be related to the performance of STIF's portfolio, particularly with regard to the time of purchases and sales.

## **V. Bond Proceeds**

Bond proceeds may be deposited in STIF. Accounting and arbitrage rebate calculations are the responsibility of participants. STIF's investment program is not designed to restrict yield in order to avoid arbitrage rebates.

## **W. Conformance with Guidelines**

A nationally-recognized credit rating service recognized by the State Banking Commissioner shall monitor the STIF portfolio on a weekly basis to determine compliance with this policy. The Auditors of Public Accounts review compliance annually.

## **X. Conformance with National Standards**

These guidelines, together with the participant manual, were designed to meet the July 1995 guidelines of the National Association of State Treasurers for local government investment pools.

## **Y. Investment Guideline Revisions**

These guidelines may be revised by the Treasurer due to market changes or regulatory, legislative or internal administrative initiatives. Attempts will be made to provide all STIF investors with at least 30 days of notice before any changes to the investment policy become effective.

The Treasurer reserves the right to make changes immediately to respond to market conditions. In such circumstances, revisions will be sent to all STIF investors within two business days of the revision.

**GLOSSARY OF TERMS**

**Agency Securities** - Securities issued by U.S. Government agencies, such as the Federal Home Loan Bank. These securities have high credit ratings but are not backed by the full faith and credit of the U.S. Government.

**Asset Backed Notes** - Financial instruments collateralized by one or more types of assets including real property, mortgages, and receivables.

**Banker's Acceptance (BA)** - A high-quality, short-term negotiable discount note, drawn on and accepted by banks which are obligated to pay the face amount at maturity.

**Basis Point (bp)** - The smallest measure used in quoting yields or returns. One basis point is 0.01% of yield, 100 basis points equals 1%. A yield that changed from 8.75% to 9.50% increased by 75 basis points.

**Benchmark** - A standard unit used as the basis of comparison; a universal unit that is identified with sufficient detail so that other similar classifications can be compared as being above, below, or comparable to the benchmark.

**Capital Gain(Loss)** - Also known as capital appreciation(depreciation), capital gain(loss) measures the increase(decrease) in value of an asset over time.

**Certificates of Deposit (CDs)** - A debt instrument issued by banks, usually paying interest, with maturities ranging from seven days to several years.

**Commercial Paper** - Short-term obligations with maturities ranging from 1 to 270 days. They are issued by banks, corporations, and other borrowers to investors with temporarily idle cash.

**Compounded Annual Total Return** - Compounded annual total return measures the implicit annual percentage change in value of an investment, assuming reinvestment of dividends, interest, and realized capital gains, including those attributable to currency fluctuations. In effect, compounded annual total return "smoothes" fluctuations in long-term investment returns to derive an implied year-to-year annual return.

**Consumer Price Index (CPI)** - A measure of change in consumer prices, as determined by a monthly survey of the U.S. Bureau of Labor Statistics. Components of the CPI include housing costs, food, transportation, electricity, etc.

**Cumulative Rate of Return** - A measure of the total return earned for a particular time period. This calculation measures the absolute percentage change in value of an investment over a specified period, assuming reinvestment of dividends, interest income, and realized capital gains. For example, if a \$100 investment grew to \$120 in a two-year period, the cumulative rate of return would be 20%.

**Derivative** - Derivatives are generally defined as contracts whose value depends on, or derives from, the value of an underlying asset, reference rate, or index. For example, an option is a derivative instrument because its value derives from an underlying stock, stock index, or future.

**Discount Rate** - The interest rate that the Federal Reserve charges banks for loans, using government securities or eligible paper as collateral.

**Expense Ratio** - The amount, expressed as a percentage of total investment, that shareholders pay for mutual fund operating expenses and management fees.

**Federal Funds Rate** - The interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. The federal funds rate is one of the most sensitive indicators of the direction of interest rates since it is set daily by the market.

**Federal Reserve Board** - The governing body of the Federal Reserve System (12 regional Federal banks monitoring the commercial and savings banks in their regions). The board establishes FRS policies on such key matters as reserve requirements and other regulations, sets the discount rate, and tightens or loosens the availability of credit in the economy.

**Gross Domestic Product** - Total final value of goods and services produced in the United States over a particular period or time, usually one year. The GDP growth rate is the primary indicator of the health of the economy.

## GLOSSARY OF TERMS

- Index** - A benchmark used in executing investment strategy which is viewed as an independent representation of market performance. An index implicitly assumes cost-free transactions; some assume reinvestment of income. Example: S&P 500 index.
- Inflation** - A measure of the rise in price of goods and services, as happens when spending increases relative to the supply of goods on the market, i.e. too much money chasing too few goods.
- Investment Income** - The equity dividends, bond interest, and/or cash interest paid on an investment.
- Liability** - The claim on the assets of a company or individual - excluding ownership equity. The obligation to make a payment to another.
- Market Value** - The price at which buyers and sellers trade similar items in an open marketplace. Stocks are considered liquid and are therefore valued at a market price. Real estate is illiquid and valued on an appraised basis.
- Master Custodian** - An entity, usually a bank, used as a place for safekeeping of securities and other assets. The bank is also responsible for many other functions which include accounting, performance measurement, and securities lending.
- Maturity Date** - The date on which the principal amount of a bond or other debt instrument becomes payable or due.
- MFR Index (Formerly IBC)** - An index which represents an average of the returns of institutional money market mutual funds that invest primarily in first-tier (securities rated A-1, P-1) taxable securities.
- Money Market Fund** - An open-ended mutual fund that invests in commercial paper, bankers' acceptances, repurchase agreements, government securities, certificates of deposit, and other highly liquid and safe securities and pays money market rates of interest. The fund's net asset value remains a constant \$1 per share - only the interest rate goes up or down.
- Moody's (Moody's Investors Service)** - A financial services company which is one of the best known bond rating agencies in the country. Moody's investment grade ratings are assigned to certain municipal short-term debt securities, classified as MIG-1, 2, 3, and 4 to signify best, high, favorable, and adequate quality, respectively. All four are investment grade or bank quality.
- Net Asset Value (NAV)** - The total assets minus liabilities, including any valuation gains or losses on investments or currencies, and any accrued income or expense. NAV is similar to Shareholders' Equity.
- Par Value** - The stated or face value of a stock or bond. It has little significance for common stocks, however, for bonds it specifies the payment amount at maturity.
- Principal** - Face value of an obligation, such as a bond or a loan, that must be repaid at maturity.
- Prudent Expert Rule** - The standard adopted by some entities to guide those fiduciaries with responsibility for investing money of others. Such fiduciaries must act as a prudent expert would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investment. This is a higher standard than the "prudent person" rule.
- Realized Gain (Loss)** - A gain (loss) that has occurred financially. The difference between the principal amount received and the cost basis of an asset realized at sale .
- Relative Volatility** - A ratio of the standard deviation of the Fund to the standard deviation of its selected benchmark. A relative volatility greater than 1.0 suggests comparatively more volatility in Fund returns than those of the benchmark.
- Repurchase Agreements ("Repos")** - An agreement to purchase securities from an entity for a specified amount of cash and to resell the securities to the entity at an agreed upon price and time. Repos are widely used as a money market instrument.
- Reverse Repurchase Agreements ("Reverse Repos")** - An agreement to sell securities to an entity for a specified amount of cash and to repurchase the securities from the entity at an agreed upon price and time.

## GLOSSARY OF TERMS

## S&amp;P Ratings -

AAA - Debt having the highest rating assigned by Standard & Poor's. It has the highest capacity to pay interest and its ability to repay principal is extremely strong.

AA - Debt having a very strong capacity to pay interest and repay principal. AA rated debt differs from the higher rated issues by only a small degree.

A - Debt which has a strong capacity to pay interest and repay principal although it is somewhat more susceptible to the adverse effects of change in circumstances and economic conditions than debt in higher rated categories.

BBB - Debt regarded as having an adequate capacity to pay interest and repay principal. BBB is the lowest rating assignable to investment grade securities. Although debt rated BBB normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to weakened capacity to pay interest and repay principal for debt in this category than in higher rated categories.

BB, B, CCC, and CC - These ratings are regarded, on balance, as predominantly speculative with respect to capacity to pay interest and repay principal in accordance to the terms of the obligation.

C - These ratings are reserved for income bonds on which no interest is being paid.

D - These ratings are for debt which is in default. No interest or repayment of principal is being paid.

Soft Dollars - The value of research or other services that brokerage houses and other service entities provide to a client "free of charge" in exchange for the client's business.

Standard Deviation - A statistical measure showing the deviation of an individual value in a probability distributed from the mean (average) of the distribution. The greater the degree of dispersion from the mean rate of return, the higher the standard deviation; therefore, the higher the risk.

Treasury Bill (T-Bill) - Short-term, highly liquid government securities issued at a discount from the face value and returning the face amount at maturity.

Treasury Bond or Note - Debt obligations of the Federal government that make semiannual coupon payments and are sold at or near par value in denominations of \$1,000 or more.

Turnover - The minimum of security purchases or sales divided by the fiscal year's beginning and ending market values for a given portfolio.

Unrealized Gain (Loss) - A profit (loss) that has not been realized through the sale of a security. The gain (loss) is realized when a security or futures contract is actually sold or settled.

Variable Rate Note - Floating rate notes with a coupon rate adjusted at set intervals, such as daily, weekly, or monthly, based on different interest rate indices, such as LIBOR, Fed Funds, and Treasury Bills.

Volatility - A statistical measure of the tendency of a market price or yield to vary over time. Volatility is said to be high if the price, yield, or return typically changes dramatically in a short period of time.

Yield - The return on an investor's capital investment.

**Statistical**  

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**Section**



STATISTICAL SECTION

This part of the Short-Term Investment Fund's (STIF's) comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial schedules and other supplementary information say about the overall financial health of STIF. The schedules within this statistical section comply with the requirements of GASB 44.

**Financial Trends**

These schedules contain the ten-year trend information on the financial performance of STIF.

<u>Schedule</u>	<u>Pages</u>
o Schedule of rates of return	42-43

**Revenue Capacity**

Revenue capacity is not applicable to STIF.

**Borrowing Capacity**

Section H 2. of the Short-Term Investment Fund's Investment Policy allow the fund to utilize reverse repurchase agreements to meet temporary liquidity requirements of the fund. The following statistics outline STIF's borrowing capacity as of June 30, 2011.

<u>Description</u>	<u>Amount</u>
Outstanding borrowing	\$0
Maximum borrowing amount	Five percent of total assets
Collateral requirement	Must be collateralized at a minimum of 100 percent

**Demographic and Economic Information**

These schedules show the breakdown between state and municipal funds, growth of the fund and rate information.

<u>Schedule</u>	<u>Page</u>
o Growth of participant units	44
o Monthly and annual comparative yields	45

**Operating Information**

The summary of operations schedule outlines the expenses, additions and deductions associated with the management of STIF.

<u>Schedule</u>	<u>Page</u>
o Changes in Net Assets	46
o Distributions to participants	47

*Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. STIF implemented Statement 34 in fiscal year 2005.*

**CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND**

**SCHEDULE OF ANNUAL RATES OF RETURN**

	Year Ended June 30,									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>STIF Total Rate of Return (%)</b>	0.16	0.23	0.34	1.49	4.13	5.54	4.38	2.32	1.16	1.64
<b>iMoneyNet Money Fund Average™ Rated First Tier Institutional Average (MFR) Index (%)<sup>(1)</sup></b>	0.05	0.08	0.09	1.30	4.07	5.14	4.01	1.91	0.75	1.20
<b>Total Assets in STIF, End of Period (\$ - Millions)</b>	4,894	4,494	4,582	4,548	5,054	5,004	5,430	4,314	3,829	3,280
<b>Percent of State Assets in Fund</b>	83	84	84	81	83	80	84	84	81	69
<b>Number of Participant Accounts in Composite, End of Year<sup>(2)</sup></b>										
State Treasury	52	52	51	47	39	47	58	84	124	115
Municipal and Local Entities	674	660	656	608	637	578	542	548	556	551
State Agencies and Authorities	429	417	416	367	418	406	406	446	474	440
<b>Total</b>	<b>1,155</b>	<b>1,129</b>	<b>1,123</b>	<b>1,022</b>	<b>1,094</b>	<b>1,031</b>	<b>1,066</b>	<b>1,078</b>	<b>1,154</b>	<b>1,106</b>

- (1) Represents iMoneyNet's First Tier Institutional-only Rated Money Fund Report Averages™- (MFR) Index. These Index rates have been taken from published sources and have not been examined by UHY LLP (formerly Scillia Dowling & Natarelli LLC) or Deloitte & Touche LLP.
- (2) As of 2006 and going forward, inactive accounts were closed and only active accounts were included in the total number of participant accounts.

**CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND**

**SCHEDULE OF QUARTERLY RATES OF RETURN**

<b>FISCAL YEAR</b>	<b>Rate of Return(%)</b>	<b>iMoneyNet Money Fund Averages™ (MFR) Index(%)<sup>(1)</sup></b>	<b>FISCAL YEAR</b>	<b>Rate of Return(%)</b>	<b>iMoneyNet Money Fund Averages™ (MFR) Index(%)<sup>(1)</sup></b>
<b>2012</b>			<b>2007</b>		
Sep-11	0.04	0.01	Sep-06	1.36	1.26
Dec-11	0.06	0.01	Dec-06	1.38	1.26
Mar-12	0.03	0.02	Mar-07	1.33	1.26
Jun-12	0.03	0.02	Jun-07	1.36	1.26
<b>YEAR</b>	<b>0.16</b>	<b>0.05</b>	<b>YEAR</b>	<b>5.54</b>	<b>5.14</b>
<b>2011</b>			<b>2006</b>		
Sep-10	0.06	0.03	Sep-05	0.89	0.80
Dec-10	0.06	0.02	Dec-05	1.05	0.93
Mar-11	0.06	0.02	Mar-06	1.12	1.05
Jun-11	0.05	0.01	Jun-06	1.25	1.17
<b>YEAR</b>	<b>0.23</b>	<b>0.08</b>	<b>YEAR</b>	<b>4.38</b>	<b>4.01</b>
<b>2010</b>			<b>2005</b>		
Sep-09	0.11	0.04	Sep-04	0.38	0.29
Dec-09	0.09	0.02	Dec-04	0.53	0.41
Mar-10	0.06	0.01	Mar-05	0.64	0.54
Jun-10	0.06	0.02	Jun-05	0.77	0.67
<b>YEAR</b>	<b>0.34</b>	<b>0.09</b>	<b>YEAR</b>	<b>2.32</b>	<b>1.91</b>
<b>2009</b>			<b>2004</b>		
Sep-08	0.58	0.58	Sep-03	0.28	0.19
Dec-08	0.47	0.45	Dec-03	0.30	0.19
Mar-09	0.26	0.17	Mar-04	0.29	0.19
Jun-09	0.16	0.09	Jun-04	0.29	0.18
<b>YEAR</b>	<b>1.49</b>	<b>1.30</b>	<b>YEAR</b>	<b>1.16</b>	<b>0.75</b>
<b>2008</b>			<b>2003</b>		
Sep-07	1.34	1.27	Sep-02	0.48	0.38
Dec-07	1.24	1.19	Dec-02	0.45	0.32
Mar-08	0.90	0.92	Mar-03	0.36	0.26
Jun-08	0.59	0.62	Jun-03	0.35	0.24
<b>YEAR</b>	<b>4.13</b>	<b>4.07</b>	<b>YEAR</b>	<b>1.64</b>	<b>1.20</b>

(1) Represents iMoneyNet's First Tier Institutional-only Rated Money Fund Report Averages™- (MFR) Index. These Index rates have been taken from published sources and have not been examined by UHY LLP (formerly Scillia Dowling & Natarelli LLC) or Deloitte & Touche LLP.

**CALCULATION OF RATES OF RETURN**

STIF uses a time-weighted linked rate of return formula to calculate rates of return. Other methods may produce different results and the results for individual participants and different periods may vary. The current rates of return may not be indicative of future rates of return.

The time-weighted linked rate of return formula used by STIF is as follows: Monthly returns are calculated by taking the sum of daily income earned on an accrual basis, after deduction for all operating expenses and a transfer to the Designated Surplus Reserve, divided by the average daily participant balance for the month.

The rates of return presented herein are those earned by the Fund during the periods presented as described above.

**CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND**

**GROWTH OF PARTICIPANT UNITS UNDER MANAGEMENT**

<u>Date</u>	<u>Municipal</u>	<u>State*</u>	<u>Total</u>	<u>Annual Growth</u>
6/2012	818,542,160	4,027,669,000	4,846,211,160	8.95%
6/2011	\$692,390,571	\$3,755,769,181	\$4,448,139,752	-2.09%
6/2010	731,333,009	3,811,810,110	4,543,143,119	0.63
6/2009	836,895,704	3,677,900,952	4,514,796,656	-10.16
6/2008	853,181,810	4,172,196,059	5,025,377,869	1.46
6/2007	1,007,813,533	3,945,011,848	4,952,825,381	-7.99
6/2006	842,346,535	4,540,395,185	5,382,741,720	26.05
6/2005	662,638,019	3,607,739,707	4,270,377,726	12.75
6/2004	730,794,748	3,056,676,643	3,787,471,391	17.07
6/2003	992,782,295	2,242,477,260	3,235,259,555	-7.58

\* State includes State Treasury, agencies and authorities.

**CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND**

**MONTHLY COMPARATIVE YIELDS**

	<u>STIF</u>	<u>Benchmarks<sup>(b)</sup></u>		
	Earned Rate <sup>(a)</sup>	iMoneyNet Money Fund Average™ MFR Index <sup>(b)</sup>	Fed. Reserve Three Mo. T-Bill	Fed. Reserve Three Mo. CD
06/2012	0.16%	0.05%	0.09%	0.32%
05/2012	0.21	0.04	0.09	0.29
04/2012	0.22	0.05	0.08	0.29
03/2012	0.12	0.07	0.08	0.29
02/2012	0.12	0.07	0.09	0.30
01/2012	0.11	0.06	0.03	0.40
12/2011	0.18	0.08	0.01	0.49
11/2011	0.20	0.05	0.01	0.41
10/2011	0.27	0.05	0.02	0.37
09/2011	0.18	0.04	0.01	0.33
08/2011	0.17	0.03	0.02	0.29
07/2011	0.18	0.03	0.04	0.24
06/2011	0.21	0.04	0.04	0.22

**ANNUAL COMPARATIVE YIELDS**

	<u>STIF</u>	<u>Benchmarks<sup>(b)</sup></u>		
	Earned Rate <sup>(a)</sup>	iMoneyNet Money Fund Average™ MFR Index <sup>(b)</sup>	Fed. Reserve Three Mo. T-Bill	Fed. Reserve Three Mo. CD
2012	0.16%	0.05%	0.05%	0.34%
2011	0.23	0.08	0.12	0.28
2010	0.34	0.09	0.12	0.41
2009	1.49	1.30	0.54	1.89
2008	4.13	4.07	2.91	4.16
2007	5.54	5.14	5.01	5.32
2006	4.38	4.01	4.15	4.46
2005	2.32	1.91	2.25	2.48
2004	1.16	0.75	0.97	1.11
2003	1.64	1.20	1.31	1.40

(a) Actual earnings less expenses and transfers to reserves.

(b) Represents iMoneyNet Money Fund Average™ - Rated First Tier Institutional Average (MFR) Index. These Index rates have been taken from published sources.

## CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

## CHANGES IN NET ASSETS LAST TEN FISCAL YEARS (dollars in millions)

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>Additions</b>										
Net Investment income	\$12.7	\$17.3	\$21.2	\$74.9	\$208.2	\$287.2	\$217.9	\$96.6	\$45.1	\$60.9
Net Realized gain	0.2	0.1	0.3	0.6	0.0	0.2	0.0	0.0	0.2	0.4
Net decrease in fair value of investments	0.0	0.0	0.0	0.0	(24.0)	0.0	0.0	0.0	0.0	0.0
Purchase of units by participants	10,802.0	12,771.0	14,549.7	15,586.4	14,455.6	13,710.3	13,308.2	12,857.1	12,774.7	12,353.9
<b>Total additions to net assets</b>	<b>10,814.8</b>	<b>12,788.4</b>	<b>14,571.2</b>	<b>15,662.0</b>	<b>14,639.8</b>	<b>13,997.7</b>	<b>13,526.1</b>	<b>12,953.7</b>	<b>12,820.0</b>	<b>12,415.2</b>
<b>Deductions</b>										
Operating expenses	(1.3)	(1.2)	(1.2)	(1.3)	(1.1)	(1.2)	(1.3)	(1.1)	(0.9)	(0.9)
Income distributed to investors (Notes 2 and 6)	(7.6)	(11.3)	(15.6)	(69.7)	(205.2)	(282.3)	(212.7)	(93.8)	(43.4)	(59.7)
Redemption of units by participants	(10,406.5)	(12,863.3)	(14,521.3)	(16,097.0)	(14,383.1)	(14,140.3)	(12,195.8)	(12,374.2)	(12,222.5)	(12,619.0)
<b>Total deductions from net assets</b>	<b>(10,415.4)</b>	<b>(12,875.8)</b>	<b>(14,538.1)</b>	<b>(16,168.0)</b>	<b>(14,589.4)</b>	<b>(14,423.8)</b>	<b>(12,409.8)</b>	<b>(12,469.1)</b>	<b>(12,266.8)</b>	<b>(12,679.6)</b>
<b>Change in net assets</b>	<b>\$399.4</b>	<b>(\$87.4)</b>	<b>\$33.1</b>	<b>(\$506.0)</b>	<b>\$50.4</b>	<b>(\$426.1)</b>	<b>\$1,116.3</b>	<b>\$484.6</b>	<b>\$553.2</b>	<b>(\$264.4)</b>
<b>Net Assets - Beginning of Period</b>	<b>\$4,494.2</b>	<b>\$4,581.6</b>	<b>\$4,548.5</b>	<b>\$5,054.5</b>	<b>\$5,004.1</b>	<b>\$5,430.2</b>	<b>\$4,313.9</b>	<b>\$3,829.3</b>	<b>\$3,276.1</b>	<b>\$3,540.5</b>
<b>Net Assets - End of Period</b>	<b>\$4,893.6</b>	<b>\$4,494.2</b>	<b>\$4,581.6</b>	<b>\$4,548.5</b>	<b>\$5,054.5</b>	<b>\$5,004.1</b>	<b>\$5,430.2</b>	<b>\$4,313.9</b>	<b>\$3,829.3</b>	<b>\$3,276.1</b>
<b>Designated Surplus Reserve Transfer</b>	<b>\$4.0</b>	<b>\$4.9</b>	<b>\$4.7</b>	<b>\$4.6</b>	<b>\$1.9</b>	<b>\$3.8</b>	<b>\$3.9</b>	<b>\$1.7</b>	<b>\$1.0</b>	<b>\$0.9</b>
<b>Designated Surplus Reserve Transfer Balance*</b>	<b>\$47.4</b>	<b>\$43.4</b>	<b>\$38.5</b>	<b>\$33.7</b>	<b>\$29.1</b>	<b>\$51.3</b>	<b>\$47.4</b>	<b>\$43.5</b>	<b>\$41.8</b>	<b>\$40.8</b>

\* As of June 30, 2012, the balance in the Designated Surplus Reserve was \$47,360,778 which reflects \$4.0 million in contributions during the year.

Note: Details may not add to totals due to rounding.

## CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

## DISTRIBUTIONS TO PARTICIPANTS

Distributions:	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
July	\$690,438	\$940,472	\$1,804,102	\$9,552,900	\$23,237,650	\$24,345,190	\$12,263,547	\$4,488,148	\$3,459,841	\$5,630,151
August	741,866	1,002,183	1,766,231	10,885,593	26,051,672	27,564,817	14,624,900	5,455,631	3,999,517	6,319,460
September	709,215	996,828	1,652,063	10,020,904	24,381,386	25,645,680	15,299,129	6,113,181	3,696,228	6,481,756
October	1,018,729	928,080	1,435,864	8,382,261	23,109,275	23,994,071	15,278,679	6,591,446	3,507,310	6,212,452
November	754,162	993,506	1,244,871	6,870,533	19,591,395	21,300,897	14,525,210	6,268,350	3,246,255	4,919,008
December	665,569	1,031,156	1,348,631	5,624,806	15,941,753	20,518,091	14,839,019	6,750,839	3,139,363	4,678,374
January	438,608	1,003,165	1,179,381	4,289,444	16,365,735	22,743,650	17,249,274	8,060,413	3,614,655	4,669,456
February	473,242	995,211	936,966	3,477,010	14,164,444	22,710,701	17,972,835	8,336,789	3,686,284	4,285,455
March	482,688	939,497	1,020,218	3,477,312	12,867,724	23,294,961	21,840,530	9,919,350	3,712,929	4,290,218
April	651,575	871,218	1,022,252	2,679,262	10,148,379	23,423,230	22,581,575	10,410,745	3,703,840	4,125,914
May	437,660	827,009	1,125,441	2,592,339	10,362,416	24,433,435	23,888,854	11,009,094	3,943,286	4,345,137
June	494,015	771,681	1,036,174	1,846,634	8,962,975	22,370,027	22,283,125	10,424,248	3,665,289	3,672,707
Total Distribution to Participants	\$7,557,767	\$11,300,006	\$15,572,194	\$69,698,998	\$205,184,804	\$282,344,750	\$212,646,678	\$93,828,235	\$43,374,797	\$59,630,088



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Chief Investment Officer

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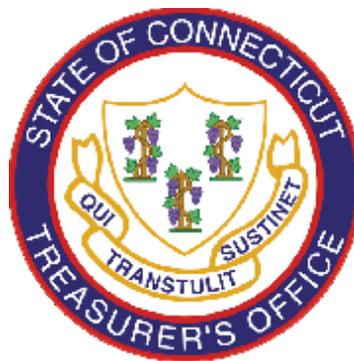
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