

# Finance, Revenue and Bonding Committee

## JOINT FAVORABLE REPORT

**Bill No.:** SB-1235

AN ACT IMPLEMENTING THE TREASURER'S RECOMMENDATIONS  
CONCERNING THE INVESTMENT ADVISORY COUNCIL AND RELATED

**Title:** STATUTES.

**Vote Date:** 4/18/2023

**Vote Action:** Joint Favorable Substitute

**PH Date:** 3/24/2023

**File No.:**

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### **SPONSORS OF BILL:**

Finance, Revenue and Bonding Committee on behalf of the Office of the State Treasurer.

### **REASONS FOR BILL:**

To implement the State Treasurer's recommendations concerning the Investment Advisory Council (IAC) and related statutes to improve the state's ability to attract and retain investment professionals and enhance the functioning of the IAC.

### **SUBSTITUTE LANGUAGE:**

The substitute language inserts sections 4 – 10, which makes changes to the Connecticut Baby Bonds Program.

### **RESPONSE FROM ADMINISTRATION/AGENCY:**

[Erick Russell, Connecticut State Treasurer, Office of the State Treasurer](#), testified that the bill gives the Treasurer authority to set compensation for all Pension Fund Management personnel, with the advice and approval of the IAC. Currently, the lack of authority over salary ranges limits the flexibility of the Treasurer's Office to make mid-level appointments and promotions in a challenging employment market. Once Investment Officers have been trained and gain experience, there is no pathway to advance within the Treasurer's Office, which leads Investment Officers to seek mid-level positions outside of state government. Expanding the Treasurer's authority to compensate all investment personnel will increase retention and the state's ability to compete for top talent in the industry.

Additionally, IAC members are prohibited from having any business organization or affiliate directly or indirectly contract with, or provide any services for, the investment of trust funds of

the state of Connecticut. This prohibition exists for their term of service and one year thereafter. This restriction has become a barrier to recruiting qualified, competent investment professionals to serve on the IAC, as such professionals typically have broad networks and industry relationships. The bill would eliminate the restriction that prohibits direct and indirect contracts with a member's business organization or affiliate, and provides a mechanism for mandatory disclosure and recusal. IAC members would continue to be governed by the State Code of Ethics, which prohibits them from lobbying other members of the IAC for one year after service while not impacting their employer's ability to enter into contracts with the Office of the State Treasurer.

#### **NATURE AND SOURCES OF SUPPORT:**

[Myra Drucker, Member, Investment Advisory Council](#) testified that excellent investment outcomes for a pension fund stem from a culture that attracts and retains an excellent team selecting the managers to invest those funds. Establishing career paths that give people competitive compensation and visibility toward a rewarding future would help create that culture.

Ms. Drucker has been actively engaged in not-for-profit organizations that strive to maintain the highest ethical standards. This has been achieved through disclosure of any possible conflicts and recusal from any decisions where such conflicts existed. That is the standard most state commissions use, and the one being proposed in this bill IAC members, rather than the current strict no business rule.

This bill also removes the requirement that all investment manager contracts be approved by the IAC. This would enable the IAC to focus on investment policy, strategy, asset allocation, and performance of the funds.

[William Murray, Member, Investment Advisory Council](#) testified that section two of the bill amends the IAC conflict rules. Mr. Murray is a teacher by training, and not an investment expert. He relies on, and seeks the opinion of, other IAC members who do have investment and business expertise. It's understandable that some well-qualified, potential IAC candidates have business relationships with managers or companies with which the IAC may work. Full disclosure is important, but Mr. Murray does not consider it a conflict of interest if a person's knowledge results in valuable contributions to the IAC's investment strategy.

Section three of the bill removes the requirement that all contracts for investment managers go before the IAC. It can become redundant and time consuming when the same presenter returns with new or renewed investment requests. An experienced staff can evaluate these opportunities ahead of time and make their recommendations to the IAC. Quarterly reports serve as a check and reveal the progress and value of these investments.

[D. Ellen Shuman, Chair, Investment Advisory Council](#) testified that the bill proposes several changes that will improve the management of the Connecticut Retirement Plans and Trust (CRPTF) and the ability of the IAC to provide appropriate oversight and to attract members with significant investment expertise.

The State of Connecticut has had 10 Chief Investment Officers over the past 20 years. This lack of continuity is also evident among the Principal Investment Officer positions. This

significant turnover has undermined our ability to execute consistently and has resulted in investment performance that has barely met the policy benchmark.

IAC members are public officials and must comply with the State's Code of Ethics, which prohibits self-dealing and personal lobbying of the Treasurer for one year after service. The current policy on conflicts of interest is absolute and does not allow for any individual to have relationships with firms that are tied to the Pension Fund Management portfolio. However, the best practice is the disclosure of possible conflicts, and self-recusal from any decisions where such conflicts exist.

Section three of the bill ensures that the focus of IAC is on important investment policy issues, including asset allocation, risk management, the integrity of the investment process, and whether we have adequate resources to responsibly steward the \$45 billion in pension and other assets. Currently, IAC is required to review every management contract, which crowds out discussion of high-level investment and shareholder policy issues, including a periodic review of asset allocation. IAC can be far more effective by prescribing the parameters within which the Treasurer can allocate pension assets, including risk parameters. Under the bill, IAC will receive a quarterly report of investment manager contracts and approve only those contracts that deviate from the Investment Policy Statement.

**NATURE AND SOURCES OF OPPOSITION:**

None expressed.

**Reported by: Jean Holloway**

**Date: April 24, 2023**