



## **CONNECTICUT RETIREMENT PLANS AND TRUST FUNDS** **DIVERSITY PRINCIPLES**

*Adopted by the Investment Advisory Council in April, 2006*

The Investment Policy Statement, adopted by the Investment Advisory Council in March, 2002, sets forth the Treasurer's Policy on Vendors and Contractors as Corporate Citizens<sup>1</sup>. The rationale for this policy has only grown stronger over the three-and-one-half years since its adoption as part of the Investment Policy Statement. In an effort to continue to meet the retirement requirements of present and future beneficiaries, the State of Connecticut Retirement Plans and Trust Funds ("CRPTF") have inherent long-term interests in the success of robust, steadily growing securities markets in the United States and throughout the world.

The globalization of business, coupled with the world-wide economy's rapidly changing demographics, continues to create opportunities for those who can access untapped or under-exploited business opportunities. Changing demographics are of particular importance in the financial services industry, which has a long history of operating in a 'relationship' arena where professionals tend primarily to do business exclusively with those people and entities they already know. Recognizing the benefits that diversity offers for the global business community, it is clear that individuals or firms in the financial services industry that develop a broader circle of people or entities with which they do business will have broader access to legitimate and lucrative business and investment opportunities, and the greatest probability of future success. Conversely, as local, regional, national and global demographics change, individuals and firms that operate in limited circles will likely fall farther behind. Therefore, it is in the CRPTF's long-term interest to seek increased diversity<sup>2</sup> among its vendors in a manner similar to the way in which it seeks the diversification of its portfolio assets, consistent with the Treasurer's fiduciary responsibilities.

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<sup>1</sup> *Treasurer's Policy on Vendors and Contractors as Corporate Citizens*  
(from *Investment Policy Statement, Part I, Article XII, Section B*)

*The CRPTF requires a wide array of banking, asset management and consultative services, and the Treasurer seeks to do business with financial service providers that demonstrate evidence of corporate citizenship. Some of the key considerations include a commitment to Connecticut through the hiring of Connecticut employees or the procurement of corporate goods and services from Connecticut-based firms. Other considerations include reinvestment in local communities, the extent of charitable giving and opportunities for students through scholarships or internships. The Treasurer will also consider the employment practices including the firm's hiring, promotion, and training of women and minority employees as well as general employee relations. Other concerns include the firm's policies on environmental compliance and consumer protections.*

<sup>2</sup> As used herein, the term "diversity" encompasses efforts to expand opportunity to persons protected under state laws which bar discrimination in state contracting based on race, color, religious creed, age, marital status, national origin, ancestry, gender, mental retardation, physical disability and sexual orientation, but also to Connecticut-based firms, and to emerging firms which have been in business less than five (5) years.

In addition, for many years, government has had in place laws and policies that promote diversity in its own workplace. Treasurer Nappier has implemented a number of initiatives to expand opportunities for greater access to the CRPTF's business. Most notable among these efforts are the Domestic Equity Brokerage Program and the historic launch of the Connecticut Horizon Fund, a fund of fund opening access to business in the domestic and international equity and fixed income investment arenas, as a start. It is a natural and logical progression in these policies for CRPTF, as a customer and business partner, to ensure that its vendors are similarly committed to workforce diversity and are representative of the diversity of the community CRPTF serves.

Finally, the financial services industry continues to undergo organic changes that have had a dramatic impact on the employment in Connecticut. Consideration of emerging and Connecticut-based businesses and Connecticut-based business opportunities will enhance the development of the next generation of financial services professionals and businesses and increase the potential for such businesses to develop in the state of Connecticut.

Therefore, the Office of the State Treasurer and the Investment Advisory Council (the "IAC") reaffirm their commitment to seek opportunities to enhance vendor diversity for the benefit of the CRPTF. In recognition of the ongoing diversity objectives established and advanced by Denise L. Nappier, Treasurer of the State of Connecticut ("the State"), and in recognition of the leadership shown by former IAC member and former State Treasurer Henry Parker, the IAC hereby endorses the following statement of principles and action steps (the "Connecticut Retirement Plans and Trust Funds Diversity Principles"), advancing the fundamental conviction that the firms with which the Office of the Treasurer does business should reflect the increasingly diverse cultures, backgrounds and traditions of the people that it serves.

## **VENDOR DIVERSITY IN THE WORKFORCE/PROCUREMENT OF SERVICES**

### **STATEMENT OF PRINCIPLES**

1. By establishing relationships with firms having diverse owners and workforces, the CRPTF will have the broadest exposure to business opportunities that will provide solid investment returns.
2. Companies and firms that demonstrate a commitment to diversity are most likely to succeed in an increasingly global marketplace.
3. Consideration of emerging and Connecticut-based businesses and Connecticut-based business opportunities will enhance the development of the next generation of financial services professionals and businesses and increase the potential for such businesses to develop in the state of Connecticut.

### **PROTOCOL**

1. Financial services firms that wish to do business with the Connecticut State Treasurer's Office shall, at the time of contracting, have in place or agree to adopt written policies that promote diversity in the workforce. Such policies shall demonstrate the firm's commitment to workforce diversity in its policies on recruitment, hiring, training, promotion and retention, and shall recognize diversity as an enduring commitment, requiring ongoing efforts by the firm and periodic assessments of their progress.
2. Financial services firms that wish to do business with the Connecticut State Treasurer's Office must disclose their firm's workforce diversity statistics in a form prescribed by the State Treasurer during the RFP or search process. Workforce diversity shall be considered by the Treasurer when making her decision to recommend a firm to the IAC, and the Treasurer's recommendation shall include her analysis and conclusions regarding the diversity profile of each firm recommended.
3. In addition to workforce diversity, the Treasurer shall consider a firm's commitment to diversity principles in its procurement policies and practices; as well as the firm's commitment to the communities it serves.
  - a) Procurement policies and practices should address the development of a diverse supplier network by the firm to meet the firm's procurement needs.
  - b) A firm may show its commitment to its community by support of charitable organizations, scholarship programs and the like that promote opportunities to advance diversity.
4. To enable the Office of the State Treasurer to monitor and evaluate the efforts of firms in promoting and expanding diversity, financial services firms that enter into contracts with the Connecticut State Treasurer's Office shall agree to provide reports on their ongoing activities relating to diversity on a periodic basis upon request. In such report, firms may be asked to address any or all of the following components:
  - a) A workforce diversity report, which, in addition to statistics on the gender and ethnic diversity of the workforce, shall provide data on hiring and promotion activity;
  - b) A supplier diversity report, which shall provide information on the number of minority-owned, women-owned, Connecticut-based and emerging suppliers with which the firm has a business relationship and the value of the business conducted with such suppliers;
  - c) A report on the composition of its Board of Directors, including any changes made since the previous report;
  - d) An outline or description of the firm's efforts to support the communities it serves, and
  - e) A narrative description of activities undertaken by the firm in support of their commitment to diversity. Such narrative may describe organizations which the firm has

joined in furtherance of its efforts to broaden the diversity of its hiring pool, internal efforts to retain and promote diverse employees, diversity training provided to senior management, relationships developed to expand the diversity of its supplier base, and any other efforts that promote diversity in the firm's workforce and supplier network.

5. The Connecticut State Treasurer's Office shall review and evaluate information provided by firms relating to diversity. The firm's progress in promoting diversity shall be a component of the firm's periodic performance evaluation.
6. The Treasurer shall provide periodic reports to the IAC regarding the diversity of firms doing business with the CRPTF.

## **VENDOR DIVERSITY AT THE OWNERSHIP AND/OR CONTROL LEVEL**

### **SPECIAL INITIATIVES**

#### **DOMESTIC EQUITY BROKERAGE PROGRAM**

The Office of the State Treasurer seeks to ensure that a wider array of broker-dealers has an opportunity to provide services to the Connecticut Retirement Plans and Trust Funds ("CRPTF"). As principal fiduciary of the CRPTF, the State Treasurer encourages providers of investment advisory services to utilize Connecticut-based, minority, women and emerging broker-dealers in trading of CRPTF's securities.

Specific targets for managers of the CRPTF's domestic equities for the procurement of brokerage services from diverse firms include 30% of securities trading brokerage commissions to Connecticut-based broker dealers; 25% of securities trading brokerage commissions to minority broker-dealers and/or women broker-dealers; and 5% of securities trading brokerage commissions to emerging broker-dealers.

#### **THE CONNECTICUT HORIZON FUND**

The Connecticut Horizon fund is designed to provide the investment program of the Connecticut Retirement Plans & Trusts with additional alpha through active management plus provide opportunity for investment managers who, for multiple reasons, would not typically have full access to the CRPTF.

It is the expressed intent of the CRPTF to afford opportunities for emerging, minority and women-owned and Connecticut-based investment managers to compete for investment contracts so long as such managers are fully capable of providing investment management services consistent with investment strategy and fiduciary standards.

In addition to minority owned firms, woman owned firms, Connecticut based firms, and small firms with assets less than \$2 billion, the Treasurer will also include new innovative investment

strategies which are being incubated at all types of firms. In this way, the opportunity to enhance portfolio returns is greater and the spirit of nurturing the next generation of investment managers is expanded to include the next generation of investment ideas.