Segal Rogerscasey

Robert A. Liberto
Senior Vice President
rliberto@segalrc.com

New York

MEMORANDUM

To: NDPERS Board of Trustees

From: Robert Liberto

Date: May 8, 2012

Re: Status of The Hartford's announcement on the sale of their Retirement Plan business

---

We have conducted several conference calls with The Hartford since the announcement that they will be placing their retirement plan services unit and other businesses up for sale.

Attached is a "Manager Alert" that we produced on April 13, 2012, which addresses the organizational changes that The Hartford is contemplating. The highlights of the "Manager Alert" are:

The firm believes that any sale of their retirement practice could take twelve to eighteen months to complete. The Hartford will continue to market their stable value strategy. In the event that the stable value or recordkeeping business is sold before a contract's expiration date, the contract will remain at The Hartford and is backed by the firm until the duration of the contract. While consolidation in the industry is nothing new, Segal Rogerscasey believes this is a significant event.

Recent conversations with The Hartford have uncovered the following:

Currently all the rating agencies show The Hartford with ratings of "A" or better.

- Moody's – A3 "Good" 7th highest out of 21
- A.M. Best - A "Excellent", 3rd highest out of 16
- Fitch – A- "Strong" 7th highest out of 21
- S&P – A- "Strong" 7th highest out of 21

All have Hartford on Stable outlook except A.M. Best which has Hartford on a negative outlook.

The Hartford advised us that twelve firms have placed bids on the Retirement Plan business and they expect to select a buyer within the next two months. The firm that purchases the business will assume all the current arrangements as they exist today, which includes the broker dealer business. It will be up to the broker dealer if they decide to continue their relationship with the new provider.

As far as The Hartford's deferred sales charges, back-end loads, or market value adjustments are concerned, we were advised that they will not affect participant transactions, except for transfers out of the plan.

The Hartford is a major player in the Public Sector marketplace and we believe that many of the large investment institutions will consider this a much desired business. At this juncture, we suggest a wait and see approach, since the firm expects to identify a buyer within the next two months.

April 13, 2012

The Hartford Financial Services Group, Inc. - Organizational Announcement:

On March 21, 2012, The Hartford Financial Services Group, Inc. (The Hartford) announced that it was placing its Individual Annuity business into runoff and was pursuing sales or other strategic alternatives for Individual Life, Woodbury Financial Services and Retirement Plans with the goal of narrowing its focus on property and casualty, group benefits and the mutual fund businesses. Segal Rogerscasey conducted a conference call with members of The Hartford and Hartford Investment Management Company (HIMCO) to discuss the recent announcement.

Background

The Hartford Financial Services Group, Inc. (The Hartford), together with its subsidiaries, provides insurance and financial services primarily in the United States and Japan. The Hartford was founded in 1810 and is headquartered in Hartford, Connecticut.

Over the past several quarters, The Hartford's senior management team and Board conducted an evaluation of the company's strategy and portfolio of businesses. Upon completion, the firm decided to narrow its strategic focus, and de-emphasize capital-intensive businesses. As a result, The Hartford announced it was placing its Individual Annuity business into runoff and was pursuing sales or other strategic alternatives for Individual Life, Woodbury Financial Services and Retirement Plans. The Hartford has engaged financial advisors to assist in this process. The firm believes that any sale could take between 12 to 18 months to complete. During the transition period and for the foreseeable future, The Hartford will continue to market their stable value strategy, write new business and invest in its infrastructure.

The Hartford stressed that it will continue to honor its commitments to all policyholders. In particular, the stable value and recordkeeping accounts that Segal Rogerscasey has exposure to will be honored. In an event that the stable value or recordkeeping business is sold before a contract's expiration date, the contract will remain at the Hartford and is reassured by the firm until the duration of the contract.

The investment management subsidiary of The Hartford, the Hartford Investment Management Company (HIMCO) will remain focused on its institutional asset management business, both for third-party institutional clients and for affiliated insurance operations.

For HIMCO, this recent announcement by the Hartford means the firm will likely see its AUM reduced as the businesses in question are spun off. The firm has experienced other material changes lately. In October 2011, HIMCO announced that Greg McGreevy, President, was leaving the firm due to personal reasons. Additionally, Donna Howe, Head of Risk Management, also left the firm. Ms. Howe, who was hired by Mr. McGreevey, apparently did not get along with the senior investment professionals at HIMCO; her departure was for interpersonal rather than professional reasons. In addition, in December 2011, The Hartford announced plans to hire Wellington, the sub-advisors for the majority of The Hartford's equity mutual funds, to replace HIMCO as the sub-advisor for its fixed income mutual funds. This transaction will occur throughout the first half of 2012.

Segal Rogerscasey Analysis

While consolidation in the industry is nothing new, Segal Rogerscasey believes this is a significant event. It is important to note that all current stable value and recordkeeping contracts will be honored and are reassured by The Hartford. For HIMCO, while to date the business continues to operate normally, the recent changes are cause for concern. The loss of the sub-advisory relationships, Mr. McGreevey and Ms. Howe's departures, along with the recent announcement from The Hartford (the asset sales) are viewed as material events for HIMCO in terms of sponsorship and management leadership and may lead to renewed instability amongst key investment professionals.

Segal Rogerscasey will continue to monitor this situation and report on future developments. Please let us know if you have any questions or concerns.