OFFICE OF
STATE TREASURER
DENISE L. NAPPIER

NEWS

FOR IMMEDIATE RELEASE
Thursday, October 3, 2002

Nappier Says Federal Investigators Reviewing Silvester Investment Gone Bad; Fraudulent Actions Suspected

Connecticut State Treasurer Denise Nappier said today that the reverberations continue to unfold in connection with the scandal involving former Treasurer Paul Silvester, who pleaded guilty to federal corruption charges three years ago.

Nappier said that her office has provided information to the Offices of United States Attorney in Connecticut and the Eastern District of Pennsylvania regarding allegations of fraud and breach of fiduciary responsibility by the manager of Keystone Ventures, one of the lame duck investments made by Silvester with state pension funds in his waning days in office in 1998.

"It appears that another bad apple has fallen from the poisoned tree," said Nappier. "It looks as if one of his hand-picked business partners has also put personal interest ahead of fiduciary responsibility."

Nappier said: "Regarding Keystone, we are moving simultaneously on two tracks. First, I have urged federal investigatory authorities to pursue this matter thoroughly and vigorously, and second, we are working with our fellow investors to do everything possible to recapture the value of the investment we inherited. That could lead to legal action to recover funds lost due to illegal, irresponsible actions by Keystone's management."

Silvester invested $27.5 million of state pension funds with Keystone Venture Capital Management Co., a Philadephia-based private equity investment firm, in its $102 million Keystone V fund. That made Connecticut the largest investor in the Fund. Keystone manages a number of other funds in which Connecticut is not an investor, and in which Nappier decided against investing additional state pension funds after taking office in January,1999.

In addition, within months of taking office Nappier sought to have Keystone voluntarily reduce Connecticut's commitment in the Fund before state dollars were fully invested, but Keystone principal Keirnan Dale flatly refused, citing the binding contract with Silvester and the state pension fund that committed the state funds. The contract did not include an "exit strategy," or any way for Nappier to reduce the commitment or cancel the contract.

Contact: **Bernard L. Kavaler**
Director of Communication
(860) 702-3277 FAX (860) 702-3043
BERNARD.KAVALER@PO.STATE.CT.US

During 1999, numerous other private equity investment firms did agree to Nappier's request for voluntary reductions, and a total of $161.5 million in Silvester commitments were revoked or reduced, reducing the pension fund's exposure to the private equity asset class, where many of the scandal-related deals by Silvester were later found.

Keystone's investments have not fared well, and the $27.5 million Silvester investment is currently valued at roughly $7 million. Other investors in the Keystone Ventures V fund with Connecticut include the Pennsylvania State Employees Retirement System and the City of Philadelphia Board of Pensions and Retirement.

Earlier this year, two members of the Keystone management team informed the investors that Dale had been asked to leave the company because of suspected inappropriate, if not illegal, financial activity. Upon receiving that information, the Fund, with the approval of investors including Connecticut, hired both an investigative law firm and forensic accounting firm to investigate the questionable transactions.

When those preliminary investigations concluded that fraudulent activities may have taken place, Nappier and the other limited partners provided that information immediately to federal authorities in the U.S. Attorney's Office. The Fund also filed legal notices of intent to sue against Dale and a series of nearly two dozen possible defendants in Massachusetts and Maine – companies that Dale conducted business with -- that may have played a role in illegal activities, including fraud. Those notices preserve the Fund's right to sue to recover assets.

Nappier said that a final decision on whether to initiate legal action is awaiting the conclusion of the federal investigation. Until then, an interim manager, Penn Hudson, has been put in place to work with the two remaining principals, John R. Regan and Peter E. Ligeti in managing the partnership's investments, and Connecticut and the other limited partner investors have taken steps preparatory to appointment of a new management team or selling the fund's portfolio to another firm.

"We will take whatever steps are necessary and in the best interest of the pension fund and its beneficiaries," Nappier said. "We have been working with the other limited partners to make sure that any misuse of public funds is thoroughly investigated, and, if appropriate, prosecuted to the full extent of the law."

Also this year, Keystone settled a complaint brought against it by the Connecticut State Ethics Commission, which found that a Connecticut law firm, Tobin, Carberry, O'Malley Riley & Selinger, which had lobbied Silvester's office to invest in Keystone V inaccurately reported its fee arrangement with Keystone.

The fees came to light in 1999 after Treasurer Nappier ordered all firms doing business with the Treasury to fully disclose all third-party payments made in connection with Treasury business going back nearly a decade. In the Ethics case, Keystone did not admit wrongdoing, but agreed to pay a $2,000 fine and put more than $156,000 that it has yet to pay the law firm into escrow.

###

Contact: **Bernard L. Kavaler**
Director of Communication
(860) 702-3277 FAX (860) 702-3043
BERNARD.KAVALER@PO.STATE.CT.US