



**Keynote Address by Connecticut State Treasurer Denise L. Nappier
Interfaith Center on Corporate Responsibility
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I am delighted to be here to renew acquaintances with some of you, and have the opportunity to meet others. This organization – the **Interfaith Center on Corporate Responsibility** – is an extraordinary organization with a remarkable membership -- one whose reputation for effective advocacy certainly precedes you.

And I am pleased to share this podium with my two distinguished respondents, and I look forward to a productive dialogue with them, as well as a spirited discussion with all of you.

You know, I recently brought my six-year-old nephew to New York City and he looked around at all the buildings, all the people, and the hustle and bustle of activity, and said, “this is like one big party.”

Looking around the room today, seeing so many familiar faces, and feeling the air of anticipation as we look ahead to the coming year of shareholder activism, he was right -- this feels like one big party. But instead of the balloons and candy, we celebrate the successes of the previous proxy season and the incredible opportunities to build on those victories and that progress in the year ahead.

Before I go any further, I must give credit where credit is due. As much as I'm pleased with what we've been able to accomplish at the Connecticut Treasury in my nearly five years as State Treasurer, it's no understatement to say that we couldn't have done it without all of you.

Because when it comes to principled shareholder activism, when it comes to an unwavering commitment to the interest of shareholders and our fellow citizens, the ICCR quite literally wrote the book on shareholder activism. And I'm pleased to say that we've taken a few pages from your book – with permission, of course. Helping guide our work is my Assistant Treasurer for Policy, Meredith Miller, and her colleagues, who I know turn to ICCR regularly, and work closely with so many of you.

You know, you've been taking on the tough issues, making the case directly to corporate leaders and board members, for decades – and way before it was fashionable to do so. You've probably engaged more companies in more discussions on these issues than any investors anywhere at any time. You understand they set the policy – or they don't. Filing shareholder resolutions to prod progress comes naturally here, but up until recently you could count on the fingers of one hand the number of public pension funds that were willing to stand with you.

Now, my commitment to shareholder activism is based on my view that it is my fiduciary duty to vote and monitor proxies and that by being an activist I can add value to the company in which the portfolio invests. In this room, I'm certainly not alone in that view.

So, corporate governance was at the top of my agenda since I assumed the Office of Connecticut Treasurer in 1999. I believed then as I do now that value is added to a company not just by the integrity of its fiscal accounting but by its record on issues we refer to as sustainability; the environment, treatment of workers and diversity in the workforce and on its corporate boards. And we've come a long way since 1999 – both in Connecticut's program, and across the board.

In fact, the subject of this annual event, “**Pushing the Envelope of Corporate Change**,” captures the progress quite well.

The good news is that over the past year or so, some of those corporate leaders who have historically been pushing quite vehemently against us have recently switched sides, and now they are pushing with us instead of against us. And a fair number of corporate executives that remain resistant to our pushing the envelope at least aren't pushing back quite as hard.

That's real progress. It's measurable, we've all seen it in the reactions to our shareholder filings, in our one-on-one discussions with some corporate executives and directors, and in the votes our resolutions are receiving. And we've certainly seen it reflected in media attention and in public opinion polls.

Much as Dorothy said when she looked around and saw the landscape of Oz, corporate leaders could easily, and rightly, proclaim: "we're not in Kansas anymore."

The efforts, by Connecticut, by those of you in this room, and by a growing number of institutional investors, have both drawn attention and brought results, in some cases moving major companies to step into previously uncharted territory, providing a model for others to follow.

Let me give you some examples of what we've been able to accomplish in just the past year alone. I can point to five watershed accomplishments:

- First, issues of sustainability reached new and unprecedented heights as an appropriate component of mainstream corporate governance agendas. We saw, really for the first time, a coalition of faith-based, public and socially responsible investors come together on these issues. The reach of this new, broad-based coalition was evident at the annual shareholder meeting of American Electric Power, where the climate change resolution sponsored by Connecticut received the support of 27% of shareholders voting. While some people may say 27% is not a majority, it is virtually unprecedented. And I should add that an article in the *Wall Street Journal* the next day shared that view.
- Second, shareholders made certain that the corporate governance reform agenda would include an examination of basic shareholder rights such as access to the proxy ballot and direct, unfiltered shareholder communication with board members. A few months ago, we coordinated a meeting of a number of institutional investors with the lead independent director at GE, who is also the compensation committee chair. I believe that a number of elements in the new compensation for GE's CEO -- which was announced last month -- were directly influenced by the message we delivered that day. We need to take this model and replicate it again and again.
- Third, institutional investors and public officials spoke out in opposition to off-shore reincorporation, and in Connecticut we were able to block the move of one company, Stanley Works, which was headed to a post office box in Bermuda.
- Fourth, the disparate and sometimes lonely voices opposing excessive executive compensation became a choir, culminating in the resignation of Dick Grasso at the New York Stock Exchange just a few weeks ago. In the aftermath of that resignation, I was at the table with directors of the Big Board a week ago, and I did see a glimmer of hope on the horizon.
- And fifth, there was more activism and more action across the full spectrum. Congress, the SEC, the NYSE, State Attorneys General, State Treasurers -- almost in every corner, individuals and institutions who in the past could never be counted among the advocates for greater corporate responsibility and accountability were moved to act.

In my view, institutional investors have struck a chord, because too many companies have struck a nerve. The scandals that rocked our markets and the precipitous drop in investor confidence

opened an unprecedented window of opportunity. We must keep it open, and allow the fresh air of reform to come in.

Make no mistake, there has never been a better time in our history for the rise of investor power. And, we should take full advantage of this moment in history – when the need for stricter oversight is clear and companies are in the midst of re-thinking these issues.

How do we get there? How do we achieve the progress that we've all been working towards? I believe in the oft-quoted phrase, "it takes a village...." Public pension funds need to collaborate with other investor groups -- such as faith-based, environmental, socially responsible, and labor -- in order to get the job done. Working in a coalition has the exponential benefit of each group of institutional investors bringing to the table expertise and leadership than none of us possess when acting alone.

You know, as we look to the coming proxy season, recent years and recent events provide something to build on. I am reminded of a quote from Helen Keller, *"This is a time for a loud voice, open speech, and fearless thinking. I rejoice that I live in such a splendidly disturbing time."*

As we all know, the scandals and corporate misbehavior have been not only disturbing, but damaging, to our fellow citizens, our economy, our environment and our communities. But the "splendidly disturbing time" that Helen Keller refers to also points to a splendid opportunity that exists. And what we make of that opportunity is up to us. This next year could be a year of the highest highs or lowest lows. Or somewhere in between. So, here's what I believe we need to do as we roll up our sleeves and get to work.

The **first challenge** – or really opportunity –we have is for all activist investors to look at corporate governance structural issues as a means to their end.

We stand with you on the critical issues you care so deeply about, and we will continue to work with you on them. But it seems that the extraordinary opportunities that are front and center right now go to the heart of the board structure and operations. And if we can achieve reform there, the chances of affirmative action on all the issues we care about such as the environment, global warming, global human rights and labor standards, and diversity issues, to name a few, will be greater than ever.

- We have a real opportunity to make substantial progress on shareholder access to the proxy, which will provide a new and unprecedented level of board member accountability.
- We have a real opportunity, building on some success of the past year, to change the arrogant corporate behavior which has routinely ignored majority votes of shareholders.
- We have a real opportunity to achieve widespread direct access for shareholders to independent directors, even as we increase the number of independent directors on boards, and insure that only truly independent directors sit on the key board committees that oversee nominations, compensation and the audit.
- We have a real opportunity to bring executive compensation back to Earth, reconnect it to performance and hold corporate leadership accountable. The NYSE pay scandal gives us momentum to call for a national board of inquiry that would, among other things, look to establish benchmarks for responsible executive compensation policies not just at the NYSE and the other exchanges, but throughout corporate America – benchmarks that if unmet could trigger more explicit federal regulation.

The **second challenge** is managing our funds – in my case as the principal fiduciary -- in a fiscally and economically challenging environment, while keeping issues of sustainability front and center.

The economic downturn, federal tax cut, and dramatic decline in state revenues have created enormous budget gaps in state after state -- estimated between \$ 40 billion and \$90 billion nationwide. And with alarming frequency state governments have given in to the temptation to contribute less to public pension funds than is actuarially recommended. In Connecticut, our fund has not been immune, with the Governor and legislature slashing the funding levels for the teachers' pensions fund from 85 to 65 percent.

We're certainly not alone. In fact, 79% of all state plans are now under funded, up sharply from 51% in 2001, and 31% just two years ago, according to Wilshire Associates. Wilshire also estimates that in 2003, defined benefit plan assets for S&P 500 companies dropped \$106 billion while liabilities increased from \$105 billion to \$1.07 trillion.

Across the board, institutional investors and corporate executives must make decisions in an adverse economic climate, but we cannot permit the economic clouds to obscure the imperative to improve corporate behavior – nor can we allow periods of economic uncertainty or volatility prevent us from pushing for responsible contractor policies that are designed to protect the rights and economic well being of working families.

The **third challenge** I believe we face is maintaining the pressure on regulatory agencies that oversee our corporations and set the rules they must live by.

We can't let regulators actions be grounded in the myth that there are only a few bad apples when we know that's not true. And, I should add, at a time when the public shares our view.

One example, already in play, is access to the proxy ballot. As I'm sure you've been reading in the news, the SEC is expected within days to come forward with a new proposal on access to the proxy. We need to make sure it goes far enough. Too many board members at too many companies have failed to adequately fulfill their responsibilities and have not been acting in the best interests of shareholders.

The same can be said for the historical practice of company after company ignoring majority votes of their shareholders. That is a practice that really must stop. A dose of democracy, even in the corporate boardroom, is not a bad thing.

And we must continue to follow through on reforms that will bring more women, more diversity, and more independence to corporate board membership. There can be little doubt that, with some effort and the encouragement of the new tougher standards, our nation's corporations can do better. We still encounter resistance, but these ideas are gaining a foothold and we must not let up.

We must make sure that the Securities and Exchange Commission becomes a true ally of corporate governance reformers, that Congress recognizes the financial risks of global warming, that corporations live up to the letter and the spirit of Sarbanes-Oxley.

The New York Stock Exchange has an important role here too, on many levels. One area is in the Exchange's regulatory responsibility of setting listing standards, and we are working with them on that front. But we need to make sure that new standards which seem tougher aren't weakened from the outset by loopholes – definitions which allow conflicts to continue or exempt certain corporate structures. And of course, as I have said directly to their Board, they need to include institutional investors in any new oversight system they devise.

The **fourth challenge** is to continue to make the case to our portfolio companies and the financial markets, forcefully and convincingly, that there is a powerful financial impact from actively addressing sustainability issues such as the environment and labor standards.

Global warming is one area in which corporate behavior is critical. As a long-term investor, I believe that companies that have potential environmental risks should take immediate and long-term steps to mitigate those risks. The stakes are high.

That's why I am convening an Institutional Investor Summit on Climate Risk, next month at the United Nations. Tim Wirth, the President of the United Nations Foundation is co-convenor, and the Summit is being organized and supported by CERES, an extraordinarily effective organization that you also work very closely with.

As institutional and individual investors, we need accurate and complete disclosure of information that could affect the current and future health of the companies we invest in... and that goes beyond accounting to include, among other things, climate change as a risk factor.

Climate change may well be about our planet's future, but it is also about the financial risks to corporations, and the impact on the retirement savings of millions of Americans. As a result, we have every right to know what is being done about it and how America's corporations will protect their bottom line, and thereby the value of our investments.

I believe that this issue is quickly becoming the leading edge of the next wave of corporate governance issues, and that the market place must begin to closely scrutinize companies to determine whether they have honestly, directly and thoroughly evaluated climate change as a risk factor and developed a proper response to it.

So, on climate risk, and so many other so-called environmental issues, the potential for serious financial impact is becoming clearer, and the days of putting ones corporate head in the sand and waiting for the issue to pass are long gone. This issue is not going away, and neither are we.

You know, there is strength in numbers and we have a number of strengths. We need to highlight those strengths, use them wisely, and marshal our forces to preserve our economic future. We have much common ground, and we will cover it more effectively if we continue to work together.

Today, the wind is at our backs. We must keep moving forward and make certain that the winds of change are sustained. I commit to be with you on the frontlines. Together, I know we can make 2004 a year of unprecedented progress for the integrity and soundness of our pension funds and the health of our planet and its people.

Thank you very much, and I look forward to the comments by our responders, and then to your questions and comments as well.