HARTFORD BUSINESS JOURNAL

May 20, 2002

Nappier fights for diversity, independence issues in boardrooms

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The Hartford Business Journal

In the past year, more and more corporate boards -- including those at Reebok, Loews Corp., Office Depot, Mattel, Nextel and EMC -- have seen a new name crop up at their annual meetings: Connecticut State Treasurer Denise L. Nappier.

"Some people don't see that as what my primary focus should be," Nappier said recently in a telephone interview. "And I say that it's natural to do it in the name of trying to protect my investments."

With such a high level of tenacity, one might think Nappier was protecting her own money. In the past four months, the treasurer's office has raised the ire of Disney CEO Michael Eisner, filed suit against The Stanley Works, and gone head to head with several companies -- most recently AT&T -- before the Securities and Exchange Commission, and won.

Nappier is fighting for board independence, diversity and workplace protections in her role as chief fiduciary of the $20 billion Connecticut Retirement Plans and Trust Funds, which she estimates has investments in some 3,000 to 4,000 companies.

Along with a campaign promise, the treasurer's growing activism stems from a year-old investment policy her office hammered out with the state's Investment Advisory Council. The policy empowers the treasurer to take on certain shareholder activities, "where appropriate," including active monitoring and communicating with corporate management, in order to enhance the pension plan's assets.

Representatives from her office will attend about a dozen shareholders' meetings this year. "I've been to two," Nappier said, noting Assistant Treasurer for Policy Meredith Miller, who oversees the corporate governance program, often represents the office.

Here is some of her work so far:

In February, Nappier introduced a resolution at Disney's annual meeting in Hartford about separating consulting from auditing services. After months of meetings, the mouse blinked and Disney agreed to change its policy.

Nappier also went up against EMC Corp., in Hopkinton, MA, over board diversity and independence. The data storage company challenged Nappier's resolutions with the SEC. The SEC, however, ordered the issue put to a vote, and two weeks ago a majority of shareholders voted, in opposition to management, for a more independent board.

And in April, the treasurer withdrew six shareholder resolutions from Office Depot, McDermott International, Mattel, American Electric Power and Siebel Systems after those companies either agreed to revise corporate governance policies or start discussing revisions.

Nappier said when she took office in January 1999, the treasurer's office had no guidelines for how to deal with pension fund investments. An earlier office overseeing corporate governance was dismantled under the term of former Treasurer Christopher B. Burnham.

"We target those companies that are underperforming," Nappier said.

Companies her office notices can include those with a lack of board diversity, lack of independence, or excessive executive compensation that isn't tied to company performance.

While some of these may be considered "social" corporate governance issues, Nappier strongly believes they have direct ties to company performance, and in turn, shareholder value.

"Evidence shows they can affect the bottom line," she said. "It's not merely a moral obligation that gets me out there. It's also good for business and good for shareholders."

Relmond Van Daniker, executive director of the National Association of State Auditors, Comptrollers and Treasurers, based in Lexington, KY, said Nappier may be one of the most active treasurers in the country when it comes to corporate governance.

"I think I can commend her for her activism," he said. "She's right at the top of her game. Connecticut's getting its money's worth."

According to Drew Hambly, a senior research analyst with the Investor Responsibility Research Center in Washington, D.C., which provides research and impartial information on corporate governance, there only are a handful of proactive institutional shareholders representing state pension funds.

The most active -- those that regularly offer shareholder proposals and attend meetings -- are the California Public Employees Retirement System, the New York City Employees Retirement System and the State of Wisconsin Investment Board. Hambly ranked Connecticut fourth after those states in terms of its growing rate of activity as a shareholder.

Whether a state pension fund becomes a proactive shareholder can depend on its staff and resources, Hambly noted. And pension funds might not become active until they begin to see their stocks under perform.

"A lot of times, pension plans get the work done behind the scenes," Hambly said. "And the companies will sometimes agree to put [their suggestions] into place. A lot of them have a lot of success doing that."

Nappier agreed. "We will go to the company and try to get to the position that's satisfactory to both parties," she said.

A recent example is The Stanley Works. The New Britain tool manufacturer has drawn national attention for management's desire to reincorporate in Bermuda to save an estimated $30 million in taxes.

The issue for the treasurer's office after doing due diligence on the matter was whether diminished shareholder rights would outweigh any benefits to the company. Nappier felt the answer was no.
Nappier said she met with Chair and CEO John M. Trani weeks before Stanley's May 9 annual meeting "to impress upon him the need to protect shareholders' rights."

But Trani, she said, disagreed. When the Stanley vote on the Bermuda move was later called into question, Nappier and Attorney General Richard Blumenthal sued to stop the reincorporation. Stanley later agreed to hold another meeting, one likely to take place sometime in the next six weeks, Nappier said.

"It is good to see an institutional investor like this take an interest," Hambly said. "It's better for the fund and could affect its long-term returns," he said. Pension funds generally are "in it for the long-term value."

While one might think corporate management sits up and takes notice when an elected state official takes interest in their governance issues, Nappier said, "it's because I'm an institutional investor. If we coalesce with other institutional investors, we can bring a lot of pressure to bear."