



Remarks by Connecticut Treasurer Denise L. Nappier
CERES Conference: Advancing Sustainable Governance
The Rise of Investor Power: Climate Change
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Good afternoon. Thank you Bill for your kind words of introduction! It is great to be here today surrounded by so many motivated, committed, and successful leaders!

As an organization, CERES has been an effective leader and a valuable partner, and we are very pleased to be a member of the CERES coalition.

I also join with all of you in saluting the many years of outstanding leadership by Bob Masse. Bob has really left an incredible legacy, and built a great foundation for the future, for Mindy and all her colleagues at CERES.

I am proud to say that in Connecticut, we have taken a very rich tradition of institutional investor activism and expanded upon it. The bottom line is this: there is a positive economic value that comes out of being an active shareholder. It is my fiduciary duty to properly exercise our proxy voting rights, engage corporations on issues of corporate governance and sustainability, file shareholder resolutions, engage in security fraud litigation, and lobby for laws and regulations governing corporate behavior, which, among other things, take into account that it is the shareholder who ultimately owns the company.

In fact, all that I do as a fiduciary must be grounded in the principle that my actions increase shareholder value over the long run. That is for the 160,000 participants and beneficiaries of the \$17 billion Connecticut pension fund, who depend on these assets for their future financial security.

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. The proof of that notion is evident in recent polls that have found: 71% of investors who believe that corporate fraud is rampant and 54% who believe that this fraud is not limited to a few bad apples.

So the time to act is now, before the opportunity is lost. Here are some examples of what needs to be done:

- S&P and the other indexes should consider corporate governance criteria – an issue we’re working on with them. A 2000 McKinsey & Co. survey of investors reported that 63% said they would avoid poorly governed firms and 57% would buy or sell based on governance.
- There must be comprehensive and full implementation of the new rules. Right now there is interpretative wiggle room in some of the new rules, and corporate directors are being given discretion that could allow them to essentially override the spirit of some key regulatory reforms.
- We must use the upcoming increase in the number of independent board members to increase the diversity of boards. In fact, academic studies have shown that companies that have diverse boards do better financially than their peers.
- There must be shareholder access to the proxy.
- Companies should no longer be allowed to ignore the majority votes of its shareholders.
- Shareholders should have direct and unfettered access to Independent Directors, and
- We need to broaden the definition of corporate responsibility and transparency, moving beyond traditional reporting to include sustainability issues that can just as certainly impact the bottom line.

Let me spend a few minutes talking about the rise of investor power in one specific area: climate change.

As the Global Reporting Initiative launched by CERES, says, “*Achieving sustainability requires balancing the complex relationships between current economic, environmental and social needs in a manner that does not compromise future needs.*”

I share the concerns of environmental activists about the imperative for actions on the environmental front, and from my vantage point, action is just as necessary when it comes to responding to the potential financial risks. I believe that these are really two sides of the same coin, neither of which can be ignored.

From the standpoint of institutional investors, the issue is clear: Climate change will impact the value of our portfolios.

We know about the break up of the Antarctic ice shelf. And we know of rising oceans, unpredictable weather events, floods, and drought that displace people and destroys agriculture. We are already seeing higher insurance premiums or coverage being denied altogether in risky waterfront real estate.

All of these will have financial impact on some of the companies in which we invest. So as far as I'm concerned, Global Reporting Initiative with its focus on sustainability should be on every corporate agenda.

As many of us know, the current federal government approach to climate change calls for voluntary action. However, there is a growing consensus that within the foreseeable future there will be some form of mandatory federal controls on the emission of carbon. The McCain-Lieberman bill, now pending in Congress, is one example.

There can be little doubt that when government regulation kicks in, there will be an economic impact on the companies in the affected industries. So, 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.

The sustainability argument so well articulated by CERES directly impacts a corporations' ability to return shareholders value over the long term. As a long-term investor on behalf of a retirement fund, that is what I care about.

Recently, the Connecticut pension fund and many of you have worked with CERES on resolutions at a number of companies, especially in the electric utility and gas and oil industries.

And I'm very pleased to say – as you will be hearing during this conference -- that a number of prominent and leading funds across the nation will be supporting these shareholder initiatives.

In the case of American Electric Power, where we've once again filed a shareholder resolution this year, the company's own disclosure to the SEC acknowledges climate change as a risk factor. What they haven't done, and what most utility companies haven't done, so far, is present to their shareholders a comprehensive assessment of these risks and how they plan to address them.

Exxon Mobil, as the largest oil company in the world, should lead the industry and be a model for how best to address the risks and opportunities that global warming poses. Instead, this company chooses to fight a proposed resolution on risk

assessment. Why? Because according to Exxon Mobil's CEO, it would not be fiscally prudent to do so over the short term.

And that is the dilemma we face as investors. The corporate mantra has been to exchange prudent and strategic practices for the next quarterly earnings reports.

Much more can and should be done, and, in my view, our nation's institutional investors are in a position to lead the effort. If we are to do so effectively, we must plan our strategy and maximize our impact.

- We need to discuss why companies are not disclosing the details of climate risk to shareholders, and how to get them to do so.
- We need to understand the role of government policy, where that policy is helping, and where it is creating barriers to action that could, in turn, hurt the long-term value of our portfolio companies.
- And we need to develop strategies to get financial analysts to look more closely at these long-term risks, and whether companies are working to mitigate these risks to investors.

To answer those and other questions, exchange views, examine alternatives, discuss priorities and develop strategy, I intend to convene an Institutional Investors Summit on Climate Risk. The goal for this summit, at its core, is basic - to develop strategies for institutional investors to protect the long-term value of their portfolios in light of the potential risks of climate change.

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.

Already, I'm pleased to report that a number of public and private funds, and leading public officials representing many of those funds, have endorsed this approach.

The Comptrollers of New York State and New York City, and the Treasurer of Vermont are already among them. I look forward to working with them, and others, in the coming months. The work of CERES will be central to this effort, and I look forward to others lending their experience and interest.

This Summit should serve as notice that we will not tolerate irresponsible corporate behavior that could potentially undermine the integrity and soundness of our pension funds and the health of our planet and its people.

I know you share my commitment on this issue, and I thank you.