



**Remarks Prepared for Delivery  
State Treasurer Denise L. Nappier  
Business Council of Fairfield County (formerly SACIA)  
Wednesday, November 2, 2005**

Thank you, Chris (Bruhl) for your kind introduction and your dedication to this organization through the years. And thanks to all of you that make the Business Council of Fairfield County the well-respected organization that it is. You may have changed the name, but the quality of your work remains the same. This is one organization that can always be counted on to get the facts right and articulate your position well. That's a credit to everyone in this room. When the Business Council talks, people listen... and deservedly so.

You know, for me, this is an opportunity to address not only a number of companies that are included in our pension fund portfolio, but companies that share my commitment and concern about how we can attract and keep businesses in Connecticut... not to mention start new ones.

It's really quite fundamental. When you are healthy, the state's tax base and overall economy is healthy. We are in this together, and for the long haul... and we share a commitment to achieving a sustainable rate of return.

Now, I know we're barely into November, but I'd like to give you the Treasury version of Christmas past, present and future. By that I mean:

- first, some context about Treasury operations,
- second, highlights of the activities we're now immersed in that particularly affect you,
- and third, a preview of issues that should be on your radar screen going forward.

As more than one business leader has told me, you can't run a business by looking backward... you need to look forward. I've heard this described as "sustainable success." But I'm also mindful of the fact that those who close their eyes to the lessons of history are condemned to repeat it. So, let me first walk you through the distance we've already traveled.

I'm sure you are familiar with the saying, "may you live in interesting times." Well, for those of us in government these past few years – and for all the residents of our state -- it has certainly been interesting.

We've been through some difficult times, and our citizens have understandably been wondering whether "government" and "ethics" were mutually exclusive terms... and I guess much the same can be said about "business" and "ethics". Well, like you, I believe they belong together, and I've spent considerable time making sure of it.

As you may recall, before there was the Rowland scandal, and the Giordano scandal, and the Ganim scandal, there was the Silvester scandal, involving former treasurer Paul Silvester. So, because of my predecessor, I know how to clean up after an administration that was more interested in personal greed than the public welfare. And I know about having a predecessor go to prison for his crimes and breach of the public trust. To quote a popular phrase, "been there, done that."

Today, the Treasury is a very different and a much better place. My first order of business was to restore trust in the Treasurer's Office, and from day one, my administration's overriding goal has been to employ high standards of professionalism, excellence and integrity in the conduct of our work.

Our Treasury Reform plan was approved by the General Assembly and those reforms are now firmly in place. They underscore my commitment to prudent management of the office, which is about:

- Accountability,
- Eliminating political influence peddling in the investment of our pension funds, and

- Full disclosure and transparency.

Beyond that, another aspect of our work that is focused on achieving long-term sustainable investment performance is the decision I made to re-establish Connecticut as an active shareholder. In my view, we have the fiduciary obligation to seek opportunities to protect and enhance our long-term shareholder interest in publicly held companies... and that includes voting our proxies. As some of you know, the proxy vote is considered an asset under pension law, because it has value and can impact our holdings.

I believe that my administration has developed a winning formula for shareholder activism. We work in collaboration with pension funds across the country to engage in a constructive dialogue with a company... often by meeting with its independent directors or by using our pending proxy vote to influence the company's corporate governance practices. The result has often been an agreement that both we and the company can describe as a "best practice" for its industry, or, in some cases, an unprecedented action.

We've done this effectively on issues ranging from tying executive compensation to performance to eliminating conflicts of interest in corporate accounting practices... from adding independence and diversity to the board room to increasing shareholder access to the board. And we've worked with industry leaders from Disney and GE to AEP and EMC.

So, from our vantage point, sustainable corporate governance yields sustainable rates of return. Now, that may have been a bold or even heretical statement in the pre-Enron days, but I believe that today, most companies "get it."

- It matters if a company has policies that provide meaningful input for shareholders.
- It matters if a search for the best talent available for board seats or key management positions provides a real opportunity for women and minorities to be seriously considered.
- It matters if a company is committed to the community in which it resides, and that commitment is reflected in more than rhetoric.

We've been on the cutting edge on a number of issues... and our achievements with corporate America are not inconsequential. But there's still more to do... which I will address in just a few minutes, when I move to the future of corporate governance.

For now, staying in the present, you may be wondering how well is all this working for us? Well, the Treasury is a financial operation, so it's best to let the numbers tell the story.

Our \$21 billion pension fund is not only among the best performing public funds in the country, we have consistently achieved a high performance over the long-term, while taking on less risk than our peers. In the fiscal year that ended June 30, 2004, the fund grew by \$1.9 billion and achieved a return of over 15%. That was the highest return in the four previous years. And in the fiscal year just ended, the pension fund grew by another \$1.1 billion and returned 10.5%, placing it among the top third of public pension funds with assets greater than \$1 billion -- that at a time when the S&P 500 was just over 6 percent.

Now, in terms of our overall corporate governance program, I should add that we make every effort to practice what we preach. In our own pension fund, we've instituted a number of programs to encourage Connecticut-based firms, as well as women-owned, minority-owned and emerging businesses, to earn a share of Treasury business as financial service vendors. We have provided these firms -- too often shut out in the financial arena -- a chance to show what they can do -- and they've demonstrated by the quality of their work that there are tremendous benefits to bringing them on board.

And, in fact, many of these smaller firms are located right here in Fairfield County... and I have always believed that we should look to keep some of our business right here in Connecticut... for all the right reasons... that I'm sure many of you understand. We're also putting some of our investment dollars in

Connecticut real estate and Connecticut businesses. Now, some may consider this parochial, but I consider it the right thing to do... in the financial industry, it's called the double bottom line.

Beyond the mission to grow and safeguard our state funds, we're also helping to relieve some of our state's financial burden, which in turn is making a difference for businesses and taxpayers where it counts most – on the bottom line. Here are three examples of how we are doing just that:

1. First, the Treasury is the lead agency responsible for issuing debt and representing our State before the rating agencies. In this historically low interest rate environment, we have taken advantage of this market by timing and structuring our State bond sales to lower the cost of borrowing, thereby saving taxpayers about \$400 million over the life of the bonds we have issued, including refunding bonds. These savings will reduce budget costs and help taxpayers for years to come.
2. Second, with respect to our Second Injury Fund, a form of worker's compensation funded by the business community, the business assessment rates we set have not increased in any year during my administration, despite the substantial liability I inherited. That's six consecutive years. And because of our prudent management and stricter oversight, we've been able to actually reduce the rates paid by business in each of the past three years. They're now at the lowest levels in more than a decade, and through the end of the last fiscal year had saved businesses \$36.9 million.
3. Third, we've established the most comprehensive asset recovery and loss prevention program in state history, recovering more than \$1 billion thus far... from the Silvester scandal and corporate malfeasance. In addition, the simple act of filing claims in class action suits, an activity that had been largely ignored in the Treasury until my administration, has brought us more than \$8 million in just the past few years.

Not only have we succeeded in producing cost-saving measures, but we have actually given more money back to rightful owners or heirs in our state's unclaimed property program during the past seven years than in any other seven year period in the program's history... a total of \$78 million.

Last fiscal year, we helped businesses recover approximately \$852,000, more than double the total returned in the previous year. This initiative has already returned more than \$1.5 million to business owners in just a few years since its inception. And has helped many businesses learn that in addition to being holders of unclaimed assets, they may be claimants of substantial assets as well.

Now, while my emphasis... my core business... as State Treasurer is on dollars and cents, not bricks and mortar, I believe that the financial clout of the Treasury can be used to make a difference in people's lives... and that extends to the fundamental need for a good job, a decent home, basic health care and a sound education. And for me, the decision to proceed with a proposal for a Housing Trust Fund in Connecticut was grounded in the fact that it made fiscal and economic sense for our state, it's residents, and its businesses.

Now, I knew that moving the plan from concept to law in one legislative session would not be easy. I also knew that it could not be achieved without the vigorous support of organizations throughout our state that understand the imperative for affordable housing. That certainly describes the Business Council of Fairfield County. You were an incredibly effective partner, and I would like to personally thank Joe McGee for taking the time to testify at the Capitol in support of this initiative.

Our research indicated that the Trust Fund would make a significant difference in many ways, by providing no-interest and low-interest loans and grants to for-profit and non-profit housing developers and community development financial institutions. Under this program, the construction and rehabilitation of affordable, quality housing could yield \$12 for every dollar of state investment,

which could translate to more than \$1.2 billion in additional economic activity over ten years. Beyond that, it will:

- Allow more people to live where they work,
- Encourage young people and families to remain in Connecticut,
- Help businesses in the recruitment and retention of employees,
- Generate revenue for municipalities in the form of property taxes,
- And, if done right, it has the potential to mitigate some of the gridlock in our transportation system.

That's certainly an issue I don't have to underscore here. I've often said that "doing well" and "doing good" don't have to be mutually exclusive. We also knew that this was an issue that brought together the business community, housing advocates, municipal leaders and economists... all on the same side. And in the end, the economic and human dimension of the Trust Fund proved persuasive in a bipartisan show of support at the Capitol.

Looking ahead, there are certainly many issues that will require our time and attention. I'd like to focus, as promised, on just two of them... The first is excessive executive compensation, and the second is climate risk.

I've just returned a week ago from speaking at the Annual Conference of the National Association of Corporate Directors. And I think it's fair to say that the prevailing opinion of the more than 600 attendees was that while considerable progress has been made in restoring public trust in our nation's businesses, there is still a ways to go.

One issue we discussed, that will be receiving increasing scrutiny from shareholders, is executive compensation. As I told the directors last week, no issue will engender more distrust, dismay and dissolution among investors than corporate compensation packages that range from excessive to obscene.

In an environment of pension uncertainty and job insecurity, the seemingly endless array of bonuses, stock options and astronomical salaries that are apparently routinely handed out to corporate executives are hard to miss, and, from the standpoint of investors, hard to accept. And that's especially true when they're coupled with poor investment performance.

Specifically for the 2006 proxy season, I plan to engage companies to disclose their executive compensation comprehensively, in understandable terms, and in one place in the proxy statement. As investors, we should not have to engage in a scavenger hunt or employ higher mathematics to calculate the true financial implications of retirement benefits, options on stocks and severance agreements.

Now, my understanding is that the Securities and Exchange Commission, now led by former Congressman Christopher Cox, is seriously considering taking action in this area. I believe that his interest demonstrates how important this issue is to the nation's investment community.

In our view, executive compensation that is inconsistent with a company's performance severely threatens the credibility of a leadership at a company and has the potential to damage shareholder and public trust in that company. And that can adversely affect the value of our shares.

In all candor, I believe we share a common interest here in fully restoring the faith of investors in the decisions being made by corporate boards regarding the compensation provided to management. And I say that with a full understanding that there may be a handful of highly compensated managers staring back at me right about now.

I don't begrudge substantial pay for solid performance. It is the wild unsubstantiated excesses – and their increasing frequency -- that have fed the public perception that this is the rule rather than the exception. So, I believe we need to work on this together... corporations, investors, and regulators.

And, in that spirit, let me tell you about our work on an issue you may be less familiar with. One of the areas where we've made significant progress in recent years is on disclosure of the financial implications of climate change... an issue that had barely reached the surface for most businesses when I first became Treasurer back in 1999.

As an institutional investor, while we recognize that climate change is about the future health of our planet, our issue is about the financial impact on the companies that would be directly affected. With increasing attention on the detrimental physical risks associated with climate change, there is growing consensus that the US government will need to impose carbon restraints... carbon being the largest contributor to greenhouse gasses that are at the heart of global warming. Basically, the question now is not "if," it is "when."

And from a business standpoint, planning for climate change means much more than reducing energy usage – it's about planning for sustained performance in a changed economy. And planning is not all about risk.

We recognize that with risk comes opportunity, and the potential for reward, such as in the development of new clean energy technologies – markets that companies like General Electric, to name one, are already seizing.

In fact, just last week, we worked with our state Insurance Department and Department of Environmental Protection to convene Connecticut's insurance industry to address these issues. Given what we've all seen in recent weeks, there is probably no industry that understands better than the insurance industry just how dramatic and far-reaching the business impact of climate change can be.

The one-day Summit in Hartford was attended by most of the industry giants, and it marked the first time that they had all come together to address this issue in a public forum in the U.S. And based on the dialogue that day, I have no doubt that this issue will continue to be on the front burner.

Our goal is simple... on this issue and the other corporate governance issues to which we have devoted attention. To do what we can to prevent a return to the days of Enron and WorldCom, a time when corporate excesses left shareholders to lose money... a time when managers, or directors, or both, lost site of their responsibility to shareholders.... a time when many workers and investors lost their jobs or their life savings, or both. As I said at the outset, it's all about sustainable corporate governance.

And I believe that more and more companies are recognizing that we do not need to work through these issues as adversaries, because we are not.

I want to close by observing that within the span of my two terms as Treasurer our two organizations are equally dependent on the fiscal health of the state and the larger economy – but we also can influence it. And I look forward to the opportunity to work in tandem with all of you to do just that.

Let me stop here, and I would welcome any questions you may have.