



**OFFICE OF
STATE TREASURER
DENISE L. NAPPIER**

NEWS

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NAPPIER LAUNCHES PENSION FUND'S CORPORATE GOVERNANCE PROGRAM; EFFORT IS MOST COMPREHENSIVE IN STATE HISTORY

Some early success noted as policy implementation gets underway

(Hartford, CT) -- State Treasurer Denise L. Nappier, principal fiduciary of the \$21 billion Connecticut Retirement Plans and Trust Funds (CRPTF), has announced the successful launch of her administration's comprehensive program to become active shareholders during the 2001 proxy season and beyond.

The Treasurer's Office has filed shareholder resolutions and taken action at more than a dozen companies on key corporate governance issues such as board of director independence and diversity, executive compensation, and global standards for workplace labor and human rights. Some early successes have already been achieved, and shareholders of Office Depot will consider a resolution regarding executive compensation later this month.

The corporate governance program marks Connecticut's re-emergence -- for the first time in five years -- as an active, responsible institutional investor, with the most comprehensive series of proxy voting policies in the state's history.

"We've rebuilt our internal proxy voting process and promulgated a clear set of guidelines for the exercise of our proxy rights. Voting rights are a critical component in share ownership and exercising those rights prudently and in the best interests of the fund is a pension fiduciary's responsibility," Nappier said. "The long-term value of our funds' investments will be a function of how the enterprises in which we invest are managed. Proxy voting allows us to influence management in ways that increase shareholder value."

The first step in the effort was the development of comprehensive proxy voting policies for both domestic and global proxy voting. Those guidelines were both completed last year and endorsed by the state's Investment Advisory Council, and now serve as the policy framework for shareholder decisions. Connecticut law requires the Treasurer to consider the economic, social, and environmental impact of investment decisions. In addition, state law prohibits investment in companies doing business in Northern Ireland that have not implemented the MacBride Principles of fair employment. Similar statutory prohibitions exist for conducting business with Iran.

"When I first arrived at Connecticut's Treasury, I was astonished to discover that the proxy voting process had been delegated to our external money managers with little or no oversight

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from Treasury officials. Those money managers no doubt acted within their professional responsibilities in voting proxies, but they were not necessarily completely aligned with the best interests of the pension funds," Nappier said.

Treasurer Nappier said that shareholder activism will include both exercising proxy voting rights and taking steps such as filing shareholder resolutions or supporting resolutions filed by other shareholders. The shareholder activism program for 2001 includes four critical areas:

- **Independence of the Board of Directors:** The state pension fund's proxy voting policies call for a majority of the board to consist of independent directors and subcommittees such as the audit, compensation and nominating committees to consist completely of outside, independent directors.
- **Executive Compensation:** The policies support compensating executives at a reasonable rate but that executive compensation should be tied to performance.
- **Global Working Conditions:** The policies support vendor and supplier compliance with local labor laws and core human rights.
- **Board Diversity:** The proxy voting guidelines support board diversity as a key factor in deciding whether to support the election of board members. Board diversity ensures that members who serve on boards are drawn from the broadest pool of talent and expertise.

"Whether our voices are heard alone or in coalition with like-minded public and private pension funds, our say on issues like executive compensation, director nominations, and other corporate governance matters can improve a company's performance and therefore the performance of our funds," Nappier said. "We've already begun to have an impact."

Among the program's noteworthy early successes:

- **Norfolk Southern** – a Virginia-based holding company which owns a major freight railroad, Norfolk Southern Railway Co. – has agreed with the Treasurer to add two new independent board members that will increase the number of outside independent members.
- **Autodesk Inc.** -- which sells design and drafting software and multimedia tools, primarily for the business and professional environment -- has adopted a new board policy that affects executive compensation by restricting the repricing of stock options and a new compensation charter that calls for independence of the compensation committee members and the compensation committee's control over the hiring and firing of an outside consultant.
- Hartford-based **United Technologies Corporation (UTC)**, **Cendant** (which operates businesses including Ramada Inn, Caldwell Baker, Century 21 and Avis), **TRW** (a global technology, manufacturing and service company) and **Chesapeake Corporation** (a merchandising and specialty packaging firm) have agreed to implement the MacBride Principles for fair employment in workplaces of Northern Ireland companies. Under Connecticut state law, companies that do business in Northern Ireland that do not implement the MacBride Principles cannot receive state pension fund investments.
- **HealthSouth**, a national health care provider, has agreed, at the behest of the Treasurer's Office, to more closely link executive pay and company performance.
- **Abercrombie & Fitch** and **Jones Apparel Group** have agreed to take actions on global labor standards in response to resolutions co-filed by the Connecticut and New York City pension funds.

As principal fiduciary of the fund, Treasurer Nappier approaches shareholder ownership as a prudent long-term investor. Through shareholder advocacy, the pension fund seeks to ensure that

companies in which the pension fund invests adopt corporate governance reforms and corporate citizenship practices consistent with the fund's proxy voting guidelines and in accordance with Connecticut law. The Nappier initiative also includes:

- **Urging Corporate Compliance with MacBride Principles**
Treasurer Nappier initiated correspondence with eight major corporations in support of the New York City's resolutions urging them to adopt the MacBride Principles. Of the eight companies -- TRW, Inc., Dun & Bradstreet, Baker Hughes, Chesapeake Corporation, United Technologies, Terex Corporation, Cendant Corporation, and Raytheon Company-- four have already agreed to implement the MacBride Principles.
- **Providing Input to Regulatory Agencies**
Treasurer Nappier has advocated the independence of outside auditors and the need for shareholder approval on executive stock options in correspondence with the Securities and Exchange Commission.
- **Meetings with Leading Connecticut Companies**
The Treasurer has begun a series of meetings with key Connecticut companies -- including sessions with the top executives of General Electric and Aetna -- that are important to the vitality of state's economy and in which the state pension fund is a shareholder.

"Proper attention to corporate governance matters will enable us to get the best possible financial return on the state pension dollars which our beneficiaries rely on for their future financial security," Nappier said. "A properly constructed and well-run corporate governance program serves pension beneficiaries, and taxpayers, well."

Copies of the Connecticut pension fund's proxy voting policies are available for review and downloading at the State Treasurer's web site: <http://www.state.ct.us/ott/proxyvoting.htm>.