The Office Of State Treasurer Denise L. Nappier

News

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Connecticut Treasury Concludes Successful Proxy Year

HARTFORD—Connecticut State Treasurer Denise L. Nappier, principal fiduciary of the $26 billion Connecticut Retirement Plans and Trust Funds (CRPTF), announced today that the CRPTF's 2008 proxy season was marked by several landmark agreements between the pension fund and its portfolio companies on issues that promote good corporate governance. The CRPTF also played an important role in shaping and advancing public policy and regulatory developments aimed at improving corporate governance for U.S. companies overall.

The CRPTF's successes come at a time of severe market turmoil brought on by failures in operational and risk management at the highest levels of some of the nation's largest companies. These failures have shaken investor confidence, attracted negative publicity and caused a ripple effect throughout the U.S. economy and abroad, highlighting the need for stronger corporate governance structures such as those advocated for by the Nappier Administration.

Through its engagement, the CRPTF was able to broker agreements with companies on crucial governance issues such as executive pay, shareholder communications, environmental risk and product safety. Successful engagement with companies prompted the CRPTF to withdraw 11 out of 18 shareholder resolutions filed; in 2007, the CRPTF withdrew only three out of 16 resolutions filed.

"The successes of this past proxy season reflect a new level of cooperation between shareholders and companies," Nappier said. "Companies are clearly acknowledging that responsible governance is not a new-age invention by disgruntled shareholders, but is integral to shareholder value-creation and protecting the bottom line. Especially in light of the ongoing crises in the financial markets, which painfully highlights the need for better corporate governance and transparency, and a check on Wall Street's tendency toward unfettered greed. In the interest of protecting the strength of our nation's economy and the well-being of our fellow Americans, I expect more companies to step up to the plate and engage with shareholders whose interests, at the end of the day, are closely aligned with their own."

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Overall, the CRPTF held a number of meaningful dialogues that helped advance a number of important governance initiatives on several fronts. During the 2008 proxy season, the CRPTF:

- Brokered settlements with several companies representing nearly $109 billion in total revenues on innovative executive compensation issues, garnering enhanced disclosures on executive pay-setting that significantly exceed current SEC reporting requirements;

- Filed a petition for rulemaking at the Securities and Exchange Commission (SEC) on behalf of 21 institutional investors representing $1.4 trillion in assets under management calling for expanded disclosure of the relationships between compensation consultants and client corporations;

- Filed five shareholder resolutions on Say on Pay, which would allow shareholders to cast an advisory vote on the executive pay package. The CRPTF also pushed for Say on Pay legislation, which passed the U.S. House of Representatives by a 2 to 1 margin, and is an issue supported by both presidential candidates;

- Negotiated a landmark agreement with Ford Motor Company that will lead to a reduction of greenhouse gas emissions by its car fleet. Ford also agreed to issue a report to shareholders on how the company plans to meet the new emissions standards passed by Congress this year;

- Struck agreements with Mattel and Target in which each company will report to shareholders on steps to ensure the safety of the toys it produces and, in the case of Target, sells; and

- Joined the Rockefeller family in calling on ExxonMobil to separate the position of chairman of the board and CEO in order to allow for more board independence and better communication with shareholders. A shareholder resolution filed for the second year in a row on the separation won 39.5 percent shareholder support;

- Testified twice before the U.S. House of Representatives on the need for important shareholder rights reforms such as Access to the Proxy, which would allow shareholders to put forward candidates for boards of directors on the company's proxy, and the disclosure of the relationships between compensation consultants and client corporations;

- Sponsored a conference at the University of Connecticut for 500 Connecticut high school students that considered how their activities as consumers can influence business practices related to climate change, human rights and workplace practices.

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Nappier also was named one of 15 Legends for her leadership on corporate governance for the CRPTF by ***Plansponsor Magazine***. These accomplishments are detailed as follows:

Achievements in Corporate Governance for 2008 Proxy Season: Connecticut Retirement Plans and Trust Funds

Executive Compensation Settlements

Executive compensation continues to be a key issue for the CRPTF, and in 2008 the Nappier Administration succeeded in establishing new disclosures by some of the nation's largest companies on executive pay-setting practices. This past proxy season, the Nappier Administration struck landmark settlements with Abercrombie & Fitch and Supervalu, Inc. on internal pay equity, which is the relationship between compensation received by the chief executive officer and that received by other named executive officers. A lack of internal pay equity may signal inadequate succession planning and red flag possible failures in leadership at the board level. As a result of the settlements, both companies agreed to adopt policies to consider internal pay equity as part of the executive pay-setting process.

The Nappier Administration also settled with Caterpillar Inc. and R.R. Donnelley & Sons on disclosure of the relationship between the compensation consultants engaged by the board and company management, including all fees paid to the consultant. R.R. Donnelley agreed to adopt a policy prohibiting compensation consultants from doing work for both the board compensation committee and company management. And in an historic move by a major U.S. corporation, Caterpillar will report not only the fees associated with the compensation consultant's work for the company, but also whether the compensation consultant engaged by the board owns an equity interest in the parent consulting firm.

Based on the positive results of the engagements, the CRPTF withdrew shareholder resolutions filed at each corporation.

Petition to the SEC on Compensation Consultant Independence and Congressional Hearing

In 2008, the Treasurer led a coalition of 21 institutional investors representing $1.4 trillion in assets under management in writing a petition for rulemaking to the Securities and Exchange Commission (SEC) in May. The letter asked the Commission to require companies to disclose the nature of the relationship between the compensation consulting firm and the client company, and any ownership the compensation consultant may have in the parent consulting firm. The petition is currently under consideration by the SEC and is expected to be addressed by the next Administration.

The CRPTF also testified in December 2007 on the results of a 2006 inquiry into the relationships between the compensation consultant engaged by the board compensation committee and management and the need for independent compensation consultants before the U.S. House Committee on Oversight and Government Reform. At this hearing, the Committee released data on its own inquiry into the independence of compensation consulting firms, creating a public record which institutional investors can use in requesting the SEC to take action on expanded disclosure by companies on this issue.

"As an investor, I am always looking for more complete information on how companies set executive pay," Nappier said. "As former Supreme Court justice Louis Brandeis said, 'Sunlight is said to be the best of disinfectants.' These disclosures are vital pieces of information that would allow shareholders to competently evaluate the pay package by shining a bright light on how that package is put together."

Nappier first tackled the issue of compensation consultant independence in 2006, when she spearheaded a coalition of 13 institutional investors representing $849.5 billion in assets under management that called on the 25 largest U.S. companies (by market capitalization) in the S&P 500 to provide certain disclosures on the independence of the compensation consultants engaged by the board. The letter, which was sent to the chairmen of the board compensation committees of each company, also asked the board to adopt formal policies to prevent compensation consultants from working for both management and the board.

<u>Say on Pay</u>

In 2007, the CRPTF intensified its work on Say on Pay, which would allow shareholders to vote on the executive pay package detailed in the annual proxy statement on an advisory basis. The CRPTF filed 5 resolutions at companies seeking the governance reform. It also continued its work with the Say on Pay working group, a body of corporate representatives and institutional investors that the Nappier Administration joined when it was initiated in 2007 that has opened communication between shareholders and portfolio companies on Say on Pay and other important executive compensation issues.

"Say on Pay is a way for shareholders to signal to the board whether the company has given appropriate incentives to executives by linking pay with performance, which in turn indicates how effective the board is in representing shareholder interests," Nappier said. "It is an essential tool in fostering open and direct communications between shareholders and the board on executive compensation, and it paves the way for dialogue on other important governance issues."

Over 80 resolutions were filed this year on Say on Pay. Notably, over 50 percent of shareholders voted in favor of the resolution at nine companies in 2007. This momentum on the part of institutional investors helped lay the groundwork for the U.S. House of Representatives to vote by a 2 to 1 margin to pass legislation in April 2007 that would grant shareholders the right to the advisory vote. Both presidential candidates, Sen. Barack Obama and Sen. John McCain, also have signaled their support for the initiative. The 5 companies at which Nappier filed the resolutions are: Archer Daniels Midland Company, Citigroup Inc., Merrill Lynch, Sun Microsystems, and WellPoint Inc.

<u>Climate Change Risk and Opportunity</u>

In March 2008**,** the CRPTF and other investors struck a landmark agreement with Ford Motor Company in which the corporation became the first automaker to outline a comprehensive plan to cut GHG emissions from its vehicle fleet; consequently, Nappier withdrew the shareholder resolution filed at the company. Nappier also settled energy conservation and climate change proposals filed at Southern Company and Dillard's, Inc., respectively.

In February, Nappier joined roughly 50 other institutional investors at the third United Nations Investor Summit on Climate Risk in releasing a third action plan listing a number of steps the signatories would take to protect and enhance the value of their investment portfolios in the context of climate change. The action plan identified opportunities for investments in clean energy and energy-efficient technology, and called on stakeholders to require more stringent scrutiny of energy usage in real estate portfolios and to report on how their investment managers and companies in which they invest are planning to address climate change issues.

"We were quite pleased to be joined this year by a growing number of shareholders who moved liked the melting glaciers—powerfully, inevitably and more rapidly responding to climate change," Nappier said. "It's imperative that our companies plot a course for sustaining business profitability and investment success in a carbon-constrained society. In the interests of our pension fund beneficiaries, we will keep at it until all of our companies take heed and the environmental challenge to a financially healthy future is fully met."

Toy Safety

In response to increasing scrutiny of toys manufactured abroad, CRPTF co-filed shareholder resolutions at Mattel, Inc. relating to the production of toys and Target Corporation for the production and sale of toys. The resolution asked each company to* evaluate their policies and practices relating to product safety in order to promote public trust, minimize legal liability, protect brand reputation, and safeguard and grow market share. Both companies agreed to report on toy safety and on how they will protect investors by establishing procedures throughout the supply chain that will keep unsafe toys off of store shelves.

Separate Chair and CEO

In 2008, Nappier joined the Rockefeller family to urge shareholder support for a proposal filed at ExxonMobil Corporation by governance advocate Bob Monks to separate the positions of chairman and chief executive officer (CEO). The initiative began out of concern that the current leadership structure, which combined the positions of board chairman and CEO, was a significant barrier to communications between investors and the board on issues affecting the long-term health of the company, such as the need to adequately prepare for the challenges posed by climate change in the 21st century. This year's proposal received 39.5 percent shareholder support.

In response to shareholder engagement on this issue, ExxonMobil acknowledged the need to better communicate with shareholders. CRPTF also filed a resolution at Time Warner asking the company to separate the positions of chairman and CEO, for which it won 43 percent shareholder support.

"As a fiduciary, I am keenly attuned to any potential conflicts of interest that may affect the way the companies in which I invest do business," Nappier said. "Because the board's responsibility is to *oversee* management, there is and will always be a potential inherent conflict of interest when the board is run by management. The separation of the chair and CEO positions is essential to strong and thoughtful leadership, and I will continue to support efforts by shareholders to implement this important governance reform."

Board Diversity

The Connecticut Treasury filed a shareholder proposal at Apple Inc., citing the lack of women and minorities represented on the company's board of directors. Apple responded to the proposal by appointing Andrea Jung, CEO of Avon Products, Inc., to the board. Based on the positive outcome, the resolution was withdrawn. The issue of board diversity contributed in large part to many of the withholds of support the CRPTF had on corporate board directors. In the 2008 proxy season, the CRPTF withheld on directors at 199 companies for a lack of board diversity.

Plansponsor Award for Excellence in Corporate Governance

In 2007, Treasurer Nappier was one of fifteen recipients and the only public sector institutional investor to receive ***Plansponsor Magazine's*** "Legend Award" for her commitment to fiscal and fiduciary integrity in the public sector, and her leadership in exercising thoughtful activism as an institutional investor." At the awards ceremony, Nappier was recognized for her pioneering work on corporate governance issues, including executive pay disclosure and climate risk.

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