



Testimony of Denise L. Nappier
Treasurer of the State of Connecticut

SUBMITTED TO GOVERNMENT ADMINISTRATION & ELECTIONS COMMITTEE
MARCH 1, 2010

Senator Slossberg, Representative Spallone, and members of the Government Administration and Elections Committee, thank you for the opportunity to offer testimony in support of Raised Bill 5324, *An Act Concerning Divestment of State Funds Invested in Companies Doing Business in Iran and Sudan*.

Nearly four years ago, I testified before this Committee in support of nearly identical legislation that ultimately was ratified by the General Assembly. In the face of extraordinarily egregious human rights abuses being perpetuated by the Government of Sudan, this General Assembly affirmed my authority as State Treasurer to begin a process of divestment of state funds from companies doing business in Sudan.

The proposal before you would reaffirm that power, in this case to divest from companies doing business with the Republic of Iran – a country that continues to defy United Nations' sanctions concerning the development of nuclear capabilities. This legislation would bolster the exercise of our shareholder interests in companies to ensure that the long-term value of our holdings is not compromised by the actions of a rogue nation. A number of states have passed laws regarding divestment of state pension assets from companies that invest directly in Iran, and several more are considering similar action. Connecticut ought to be among those taking definitive action.

As principal fiduciary of our state's \$23 billion pension and trust funds, I have worked diligently, and successfully, to engage companies in which we invest to do better. We have followed that approach on a range of corporate governance issues, from the risks associated with climate change to executive compensation, from workforce diversity to corporate accounting practices -- issues that are gaining support from shareholders worldwide.

As a state, Connecticut was at the forefront of efforts, decades ago, to end apartheid in South Africa. We continue to be at the forefront ensuring compliance with the MacBride Principles in Northern Ireland. And our efforts with respect to companies doing business in Sudan have yielded measurable results. We monitor well over one hundred companies doing business in Sudan, and alone or in concert with other institutional investors, we have directly engaged with upwards of 30 companies. As a result of our engagement efforts, we have divested from, or prohibited investment in, 13 companies. The value of that divestment stands at roughly \$15.5 million. Of equal importance, we have affected the conduct of companies doing business in Sudan -- some have ceased doing business there, and others have increased their humanitarian activities or improved their business practices to the benefit of local populations.

With respect to Iran, we have reviewed our portfolio's exposure to companies doing business there and at the end of 2009, our holdings had a market value of approximately \$400 million, which represents roughly 5 percent of our international portfolio.

With respect to both Iran and Sudan, as with other corporate policy issues, I have maintained from the outset that divestment is a last resort. It will be preceded by efforts to engage constructively with companies whose practices or investments we question. And by engagement, I mean contacting the company directly to open a substantive and sustained dialogue that extends beyond one exchange. In my view, this approach gives Connecticut more leverage than simply selling its stock.

But sometimes discussion, engagement and dialogue may not be enough, and that may well be the case here.

In my view, public companies that ignore world opinion, that refuse to put pressure on the Republic of Iran and who are viewed as engaged in profiteering at the expense of our national interests, run the risk of becoming incapable of sustaining the value of Connecticut's investment.

That is why I am prepared to begin the process of divestment of those companies whose business ties in Iran have the net effect of supporting Iran's nuclear capabilities.

Specifically, this legislation would repeal section 3-13g of the general statutes – a section that dates back to the American hostage crisis in 1980 – which required the Treasurer to ensure that State funds were not invested in companies doing business in Iran. In its place, this legislation would authorize the Treasurer to divest, decide not to invest further, or not enter into any future investment, in any company doing business in Iran. This bill also makes clear that in making this decision, the Treasurer shall consider relevant facts and circumstances, such as whether a company's actions are related to humanitarian activities, or whether a company is acting at the behest of the United States government.

In addition, the raised bill includes language that would amend the Sudan statute to refine the definitions of "company" and "doing business" so that the activities of partially-owned subsidiaries would fall within the law's reach.

I urge your favorable consideration, because I believe that such action is consistent with Connecticut's historic leadership on global issues, as well as my fiduciary obligation to protect the value of our investments.

Thank you.