TESTIMONY OF DENISE L. NAPPIER
TREASURER OF THE STATE OF CONNECTICUT
SUBMITTED TO THE ENVIRONMENT COMMITTEE
MARCH 11, 2015

Good afternoon, Senator Kennedy, Representative Albis, and members of the Environment Committee. I want to thank you for the opportunity to submit testimony on HB 5733, *An Act Requiring the State Treasurer to Divest Funds from Fossil Fuel Companies*.

I commend the Environment Committee for addressing the issue of divestment from fossil fuel companies. The issue of climate change is an issue that impacts not only the future health of our planet, but also the sustainability of the shareholder value of the companies in which we invest. Fossil fuel companies clearly play a role in contributing to greenhouse gas emissions that harm our environment.

As the principal fiduciary of the Connecticut Retirement Plans and Trust Funds ("CRPTF") serving approximately 194,000 beneficiaries, my view on this legislation is that its underlying supposition of combating the negative effects of climate change is well intentioned and in line with much that my Administration has worked to achieve on the issue of climate change. However, I submit that the most effective way to constructively engage fossil fuel companies in a dialogue about combating climate change is to maintain our investments and continue to use our leverage as a shareholder to work directly with company management on this, and other issues.

Since 1974, the Connecticut General Assembly has explicitly and wisely permitted the State Treasurer, with respect to investment decision making, to consider the social, economic and environmental implications of a particular investment. Within this authority, the State Treasurer has adopted, with the approval of the State's independent Investment Advisory Council, an Investment Policy Statement that incorporates these considerations for investment decisions and for voting shareholder proxies.

There is an existing legal framework for divestment that permits the State Treasurer to engage companies and, where appropriate, determine to divest, refrain from further investment or prohibit future investment in a company. Current law addresses companies doing business in Northern Ireland that fail to comply with the MacBride Principles, or do business in Iran or Sudan. In these cases, the Treasurer's Office goes through a process of engaging company leadership and utilizes divestment or cessation of investment only as a last resort.

I have worked diligently and successfully to engage companies in which we invest to do better. We have followed this approach on a range of corporate governance issues, from the risks associated with climate change to executive compensation, from workforce and board diversity to corporate accounting practices – issues that are gaining support from shareholders worldwide.

Our shareholder activism informs our opinion on divestment, which we view as a tool of last resort following a period of constructive engagement. Understanding that there is more than one way to promote our vested interests, we take action on a systemic level and on a company-by-company basis to improve governance and protect shareholder interest. Like-minded institutional investors, through organizations such as the United Nations PRI and Ceres' Investor Network on Climate Risk ("INCR"), which my Office co-founded, have accomplished much. For example:

- We have worked as the leader of INCR to seize opportunities presented by climate change disruption - by collectively working to have energy sector companies understand the benefits of diversifying their sources and investing in renewable energy, and to invest in technologies that mitigate pollution. These adjustments in a business plan can make a company sustainable and as long-term investors, that is our goal. In any given year, Ceres' members, including Connecticut, collectively work with roughly 70 companies to improve their operations for the betterment of investors and the environment. Specifically, Ceres engages with companies to:

- Reduce the absolute greenhouse gas emissions from business operations, supply chain, products and services and employees;

- Disclose the financial and material implications of climate change as well as their plans and goals for mitigating that risk;

- Put in place strong governance structures to manage risks at the board and CEO levels of the company; and

- Develop products and practices that decrease greenhouse gas emissions and generate revenue for the company.

- We have sought regulation of climate risk disclosure and carbon emission reduction. The INCR successfully petitioned the SEC to adopt formal guidance on climate-related material risks that public companies must disclose in filings. In June of 2014, I was a co-signatory of a letter to President Obama, along with investors that manage over $800 billion in assets, to support the creation of carbon pollution standards as set forth by the EPA for new and existing power plants. In September of 2014, I signed a global investor statement letter on climate change in which investors representing over $24 trillion in assets called for carbon pricing, a global climate deal, and strengthened regulatory support for energy efficiency and renewable energy.

Aside from our work in promoting systemic change, some of my administration's landmark accomplishments have been through engagements on a company-by-company basis. We remain fully committed to vigorously pursue our proxy voting rights in a manner that protects shareholder value over the long haul, which means our companies must be committed to minimizing risk and seizing the opportunity posed by climate change. During my administration, much has been accomplished to protect and grow the pension funds' assets by utilizing my office's clout as a shareholder. For example:

- In 2001, my administration filed the first-ever shareholder resolution pressing American Electric Power to address the business risks associated with climate change. After three years of filing the resolution, the company finally acceded to shareholder pressure and agreed to produce a report. The company subsequently announced plans to invest up to $15 billion in green energy projects, including energy efficiency and the use of cleaner coal burning technologies.

- In 2003, I called for and co-convened the first Investor Summit on Climate Risk held at the United Nations, which has met biennially since then. And in 2014, our resolutions resulted in First Energy agreeing to provide a comprehensive report on reducing greenhouse gas emissions and Peabody Energy agreeing to report on the impact of climate change on its business. And, for the 2015 proxy season, we filed nine resolutions at fossil fuel companies one of which, at BP, has resulted in an agreement for production of a sustainability report. In all cases, we work in conjunction with other investors to send a clear message that action is required and is no longer optional.

These engagement efforts have been successful because the CRPTF has acted in many capacities, including as a primary shareholder filer, as well as part of broader coalitions of institutional investors. While divestment communicates a belief in the social and economic risks borne by climate change, engagement brings direct influence to the boardroom. Harnessing the power of share ownership can more effectively pressure companies for greater disclosure, while encouraging corporations to consider profit maximizing strategies that help to mitigate climate change in their existing operations and to explore opportunities in the growing clean energy economy.

To be clear, the approach I have taken regarding climate change relates to the CRPTF's ability to generate superior returns. The portfolio's public equity holdings in fossil fuel companies, at the end of January 2015, had a market value of approximately $791 million, which represents roughly 2.71 percent of the total portfolio. Simply put, my goal is to grow the pension fund, and to do so responsibly. Divestment may be an option in certain circumstances, but only as a last resort after all efforts to hold discussions with company leadership have been exhausted and the investment case is no longer viable.

It is my strong recommendation that the decision on whether and when to divest from fossil fuel companies be left in the hands of the State Treasurer as principal fiduciary of the $29 billion Connecticut Retirement Plans and Trust Funds. Furthermore, I would respectfully recommend substitute language that would set forth the State's policy objective of protecting our State's investments from a carbon-constrained society through shareholder engagement with divestment as an option. There also should be annual reporting to the General Assembly on any divestment-related activities.

I look forward to a continued dialogue with you and other members of the Environment Committee as the General Assembly deliberates on this important issue.