

Public Fund Boards Forum
Monday, December 5, 2005
12:25 p.m.
Westin St. Francis
San Francisco
The Evolution of Corporate Governance

Thank you, Carl, for that warm introduction.

Good afternoon. I would like to thank the leadership of the Public Fund Boards Forum for sponsoring this important conference, and for inviting me to address you today.

I'd like to begin by saying a few words about our pension system in New York City. As Comptroller, I serve as a trustee to four of the five City pension funds and chief investment advisor to all five funds. The funds oversee a combined 91 billion dollars in assets, making us one of the largest institutional investors in the nation.

As the investment advisor to the Funds, I have the fiduciary responsibility of investing and protecting the Funds for more than 237,000 retirees and beneficiaries, and more than 344,000 City and City-affiliated employees.

This is a responsibility that we take very seriously. We recognize that the choices we make as institutional investors have far-reaching implications for the people of New York.

We also recognize that in our global economy, the role we play as shareholders, and the decisions made by the companies in which we invest, have an impact that reaches far beyond the streets of our city, and in some cases, beyond the borders of our nation.

For this reason, we have long championed the muscular exercise of shareholder rights as an integral part of our mission. And we consider the pursuit of sound corporate governance to be a fundamental component of our efforts to safeguard the integrity of the funds.

Now, this idea of “shareholder rights” – has it always been around? Is it an old idea or a cutting edge development in the world of pension management? Well, I think the answer is: a little of both.

The corporate governance movement began in the 1930’s with important writing on the subject¹ and first signs of activity by shareholder “gadflies.”

But it wasn’t until the 1970’s that the idea of corporate governance began to gather momentum. In the decades since, we have seen a tremendous evolution in the relationship between companies and shareholders.

It is an evolution that continues to this day. The impact and scope of shareholder involvement expands every year, from majority rules initiatives to changing ideas about the impact of a company’s social and environmental practices on its long-term fiscal viability.

Growing numbers of institutional investors are recognizing that the best way to protect their investments is to be aggressive in exercising their shareholder rights. I believe that this deeper understanding of corporate governance is being advanced, in part, by an increasingly enlightened sense of fiduciary duty.

I am proud that the New York City pension fund system has been at the forefront of this evolution.

¹ The Modern Corporation and Private Property, 1932, by Adolf A. Berle and Gardiner C. Means

We believe that corporations that conduct business in an irresponsible manner – either by engaging in discrimination or polluting the environment, or doing business in rogue nations – pose enormous risks to investors.

By contrast, a company that works to build long-term shareholder value by including in its business plan responsible economic, environmental and social behavior—the sustainability business model—demonstrates the type of long-range thinking that can make for a wiser investment.

In this sense, a company’s conduct with regard to areas such as the environment, human rights, and labor rights becomes just as significant in evaluating overall corporate governance as the independence of board audit committees and executive compensation.

We believe that investing in companies that show a commitment to corporate responsibility simply makes good business sense.

This principle has a long history at the New York City Comptroller’s Office. My predecessors all took an activist approach in their roles as custodians of the city’s pension funds. And each of them took on issues that were appropriate for their times.

In 1985, at the height of the anti-apartheid struggle in South Africa, Comptroller Harrison Goldin and the New York City pension funds were the first among public pension funds to submit shareholder resolutions that dealt with Apartheid.

As a direct result of pressure from the New York City pension funds, several companies adopted the Sullivan Principles that supported equality and human rights in South Africa.

The New York City system was also one of the first in the nation to divest itself of holdings in any company doing business in South Africa.

Comptroller Goldin also took action when the Exxon Valdez oil tanker ran aground in Prince William Sound, Alaska, causing one of the worst environmental disasters in history.

The Valdez incident was a watershed event in the world of shareholder activism – and New York City was at the forefront of the movement to force companies to report to shareholders on their treatment of the environment.

The Comptroller's office was a part of the team of investors and environmental organizations that founded the Coalition for Environmentally Responsible Economies and drafted the CERES principles.

And the New York City pension funds were the first to file shareholder proposals calling on companies to adopt the principles.

Elizabeth Holtzman was Comptroller when the issue of discrimination based on sexual orientation emerged. I am pleased to report that a corporation targeted during her tenure – Cracker Barrel – agreed in 2003 to adopt a policy forbidding discrimination based on sexual orientation.

Her administration was also active in many other shareholder initiatives.

As Comptroller, Alan Hevesi also tackled discrimination on behalf of the pension funds, and worked to pressure Swiss banks to pay restitution to Holocaust survivors. During his administration, the funds were the first to file resolutions on the Social Accountability 8000 initiative addressing child labor and other human rights issues, working with the International Labor Organization, as my administration does today.

Continuity is an important factor in the evolution of corporate governance. By acting on a unified set of principles, funds send a message to companies that our shareholder initiatives carry weight beyond the priorities of one proxy season, or the involvement of one particular administration.

Since I took office as Comptroller in 2002, I have been proud to continue New York City's tradition of shareholder activism, and to seek ways to expand the pension funds' involvement in matters of corporate responsibility.

We are involved in a wide range of shareholder initiatives, many of which have global implications.

This year, in fact, we had our most extensive -- and successful -- shareholder proxy season ever. During the 2005 shareholder season, we submitted shareholder resolutions covering 23 different issues to a total of 105 companies.

In response, 43 companies either adopted the proposals or otherwise satisfied the proposals' request, compared to only 10 companies last season, representing a 430% increase in successful proposals.

One of our primary areas of focus is working to encourage companies around the world to adopt sustainable business policies.

As an active member of the CERES Board – since the Coalition was formed, every New York City Comptroller has sat on the Board – I have been pleased to be involved in the Global Reporting Initiative, which was launched in 2002.

The GRI's core mission is to establish the foundation for “standardized corporate sustainability reporting” worldwide. The premise is a simple one. Sustainability reporting encourages corporations to disclose to investors a “triple bottom line” that measures economic responsibility, environmental responsibility, and social responsibility.

Economic responsibility includes everything from wages and benefits, labor productivity and job creation, to financial information. Environmental responsibility includes the impacts of corporate behavior on air, water, land, biodiversity, and human health.

Social responsibility includes workplace health and safety, employee retention, labor rights, human rights, and wages, as well as working conditions at out-sourced operations.

In this area as well, our reasons are as practical as they are idealistic. The long-term viability of the companies we own is crucial to our own stability, and divestiture does not make sense over the long haul.

I am convinced that pushing for sustainability will yield tangible dividends for investors over time. There is ample evidence to suggest that companies that

use this approach are more successful than those that do not. Several studies have found that corporations with business models that looked beyond short-term stock price significantly outperformed their peers.

I am proud to say that the New York City retirement system was the first U.S. public pension fund to call on companies to issue reports based on the GRI Sustainability Reporting Guidelines. We targeted numerous companies in 2003, and our efforts yielded several notable successes.

Seven companies -- Dell Computer, IBM, Intel, McDonald's Corp. and Pepsico --agreed to varying extents to comply with the guidelines.

Last year, we submitted similar proposals with five more companies, and this year, we submitted or resubmitted a total of ten proposals on this issue. An additional two companies -- Kinder Morgan and Burlington Resources -- agreed to comply with the guidelines.

Beyond our work with CERES, we are working to ensure that the funds play a role in the global fight against slave labor and other human rights abuses.

This year, we submitted proposals with eighteen companies calling on them to adopt company-wide workplace human rights policies based on the International Labor Organization's Declaration on Fundamental Principles and Rights at Work.

The ILO Declaration includes the following principles: allowing all workers to form and join trade unions, prohibiting child labor, barring discrimination or intimidation in employment, and not using forced labor, including bonded or voluntary prison labor.

Three companies agreed to comply, and the average shareholder vote for the initiative was 16%, an increase from the previous year.

We also filed shareholder resolutions with six companies calling on them to comply with the MacBride Principles, which seek to aid in eliminating employment discrimination in Northern Ireland and help secure a lasting peace in the region. One company – Alberto Culver -- agreed to comply with the measures, and we are confident that others will follow.

This is another case of continuity: in the 1980's, Comptroller Goldin worked on this issue.

Finally, we spearheaded a successful campaign to encourage companies to include sexual orientation in their non-discrimination policies.

This year, we filed resolutions with sixteen companies. In response, ten of them agreed to adopt an explicit prohibition against discrimination based on sexual orientation in their Equal Employment Opportunity policies.

In addition to these efforts, we have embarked on a large-scale shareholder campaign targeting companies that do business in countries that are recognized as state sponsors of terrorism.

After all, in our time, no issue is more important than the spread of terrorism across the globe. The threat of terrorism has deeply affected people throughout the nation.

And, for those of us who live in New York, of course, the terrible impact of this global menace is painfully and intimately familiar.

That is why I was shocked to learn that even after 9/11, U.S. companies are doing business in countries that have been designated by the State Department as state sponsors of terrorism.

Federal law does prohibit U.S. companies from doing business with certain terrorist nations. However, the law is silent on foreign subsidiaries. Several companies, including GE, Halliburton and Conoco-Phillips, had foreign subsidiaries that were doing business with countries, such as Iran, that sponsor terrorism.

Our efforts started on behalf of the New York City Police and Fire Department Pension Funds, which own thousands of shares in these companies.

As a result of pressure brought by my office I am pleased to report that all three companies, plus an additional two we subsequently targeted -- have agreed to either to sever their business ties to countries designated as sponsors of terrorism, or review their operations with particular reference to potential risks posed to the companies' finances and reputations.

Conoco-Phillips agreed to end its business dealings with terrorist nations. Aon has agreed to conduct a review of its operations in Iran. Cooper Cameron has decided to have its UK subsidiary divest its interest in an Iranian joint venture.

General Electric has agreed not to renew its Iranian contracts. And Halliburton has agreed to stop its subsidiaries from bidding for work in Iran.

We are now expanding the scope of this initiative. All five funds are now involved, and we have written letters asking dozens of companies in the United States and overseas to review their business ties to Sudan and examine any potential financial and reputational risks.

This is an issue of paramount importance. I intend to continue working aggressively with the trustees of the five funds to address this critical matter.

It takes hard work and perseverance, but we are making our voices heard, and we are bringing about meaningful change in the policies and practices of the companies in which we invest.

Those of us who serve as guardians of pension funds have a set of basic responsibilities that we must respect. We have a responsibility to pursue the best possible returns on investments, while maintaining fund stability and safeguarding the integrity of the funds we oversee.

In fulfilling these responsibilities, there is no reason why the goals of a sound foreign policy need to be incompatible with the goals of sound pension policy. We do not need to “do business with the enemy” in order to do right by our funds.

By pushing corporations to act responsibly, we can help to improve both their long-term viability and profitability. As the owners of these companies, we must take the long view, even if – and especially when -- management does not.

And finally, we need to be mindful of our place in the evolution of corporate governance. After all, the decisions we make today will become the legacy of the funds we oversee.

By acting responsibly, we can be certain that we have done what we must to truly fulfill our duty as fiduciaries. Thank you

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