

State of Connecticut

DENISE L. NAPPIER
TREASURER



Hartford

March 1, 2018

The Honorable Gayle Slossberg
State Senate, 14th District
Legislative Office Building
Room 3100
Hartford, CT 06106-1591

Senator Slossberg,

Thank you for your letter of February 26, 2018, and for expressing the concerns we share over the horror of recent, senseless gun deaths. So many of us in Connecticut and beyond have seen firsthand the destruction wrought by assault rifles. I commend you and other elected officials who are working to stem the wave of gun violence that has plagued our schools and communities across the nation.

It is high time to prevent access to dangerous weapons and ammunition by those who would misuse them. Should the proliferation of gun violence persist and further compromise the safety of our young people, our communities, and our long-term shareholder value, following a final period of stepped up shareholder activism I will proceed to divest or not make further investments in gun companies as the most prudent course of action.

Regarding the process of divestment, as principal fiduciary of the Connecticut Retirement Plans and Trust Funds (CRPTF), I have the authority to divest following a period of engagement with our portfolio companies, consistent with the State's divestment laws. In the meantime, I am in the process of fortifying our efforts in the corporate boardrooms of our portfolio companies that manufacture guns, and pursuing aggressively their adoption of the Sandy Hook Principles – a set of measures aimed at curbing gun violence, keeping guns out of the hands of children and those with mental health problems, and supporting universal, federal background checks.

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### Investment in Gun Companies

The assets of the CRPTF are invested in companies that manufacture guns. As of February 26, 2018, there are five (5) companies in which the CRPTF is invested as follows:

- CIE Financiere Richemont SA -- 79,501 shares valued at \$7.19 million;
- Daicel Corporation -- 146,400 shares valued at \$1.65 million;
- Olin Corporation -- 26,550 shares valued at \$879,071 and fixed income valued at \$915,255;
- Orbital ATK, Inc. -- 7,700 shares valued at \$1.02 million and fixed income valued at \$784,437; and
- Vista Outdoor, Inc. -- 221,261 shares valued at \$4.04 million.

All told, the CRPTF's exposure to gun manufacturers is \$16.5 million, or .05% of the assets of the CRPTF.

### Divestment

Your letter raises a broader question about the merits of our State's pension funds investing in gun companies. I believe that common-sense gun control measures and whether investment in gun companies will deliver returns that meet the long-term interests of the plans' beneficiaries are really two sides of the same coin, neither of which can be ignored.

I am charged with making investment decisions in the best interests of the beneficiaries that depend on these assets for retirement. Fiduciary duty requires that I take into account not only the appropriate balance between risk and return, but also the long-term viability of the investment itself. I believe that companies whose shares we hold have an obligation to address public issues that have potential effects on the business operations of the company.

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The issue of gun violence is not only a public health issue, but a financial issue as well, which is central to our concern with all divestment considerations. Companies with sound governance – such as accountable board structures, proper management of legal and regulatory risks, and alignment of executive compensation with company performance, to name a few – lead to better, more consistent performance for shareholders over time. When companies in which we are invested fail to manage potential business risks, legal and/or regulatory actions, or reputational harm arising from the misuse of firearms, it also puts at risk our long-term shareholder value.

Divestment, as a general matter, is one of a range of tools that investors can use to reflect their priorities. By selling an ownership stake, shareholders walk away from the proverbial table, no longer able to negotiate directly as an owner of the company with the board and management. However, it represents the last of a series of options that shareholders can employ to effect change. Indeed, responsible ownership requires shareholders to engage the companies in which they invest to ensure that the boards are effective stewards of a viable, sustainable business strategy. If those efforts prove unsuccessful, then I agree that divestment is an appropriate course of action.

At the end of the day, I am guided by state law and the Investment Policy Statement,¹ as promulgated by the State's independent Investment Advisory Council. To be sure, there are several noteworthy instances where the Connecticut General Assembly has taken a clear position that authorizes engagement with companies, and affirms my discretion to divest. These statutory frameworks relate to investments in companies doing business in Sudan (where we decline to invest in companies that abet the perpetuation of state-sponsored genocide), Northern Ireland (for those companies refusing to adopt the MacBride Principles and prohibit religious discrimination in the workplace) and Iran (where we refrain

¹ As outlined in the Investment Policy Statement ("IPS"), *Article XII, CRPTF's Guidelines for Corporate Citizenship and Proxy Voting*, Section 3-13d(a) of the Connecticut General Statutes provides that the Treasurer may consider the "social, economic and environmental implications" of the investments. Corporate citizenship encompasses the principle that in addition to the traditional corporate focus on profits and short-term performance, the business community must be responsible for the long term sustainable development of the people and communities (Investor Responsibility Research Center).

from companies that support a state sponsor of terror). One of the most memorable position related to investments in companies doing business in South Africa.

Engagement with Gun Manufacturers after Sandy Hook

The CRPTF has a proven record of engaging companies to encourage sound business practices that enhance shareholder value over the long term. Even in the aftermath of the horrific events in Newtown, the fiduciary obligations of CRPTF required that we follow a methodical due diligence process, to explore the environmental, social and governance (“ESG”) issues raised by investment in manufacturers or distributors of assault rifles and ammunition, and ensure that the options considered address the events that occurred and are a meaningful response. As an investor, we recognize the multi-faceted nature of the firearms and weapons industry, which on the one hand provides weapons that enhance the safety and protection of our communities by our military and law enforcement, and provides sporting weapons used by law abiding citizens, but which, at the other end of the spectrum, places dangerous firearms into the hands of those that misuse them.

After the Sandy Hook massacre in 2012, my office surveyed the CRPTF’s investments in companies that either manufacture or distribute guns. We asked those companies to take reasonable steps to avoid the misuse of firearms in order to protect their reputation, the company’s bottom line, and our investment.

We had constructive discussions with numerous companies, including Sears and Amazon, sellers of firearms accessories, that resulted in those companies taking steps to alter their business operations to help reduce gun violence and promote safety. In addition, Amazon, Dicks’ Sporting Goods and Wal-Mart indicated that their business practices were compatible with the Sandy Hook Principles.

Two gun manufacturers -- Alliant Techsystems and Olin Corporation -- never responded. We then filed a resolution with Alliant calling for adoption of the Sandy Hook Principles. (We were unable to do so with Olin because our manager sold the shares before we could file.)

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The Alliant resolution garnered less than 9% of shareholder votes. Despite that failure, we maintained our ownership, and in 2017 we filed a resolution with its spin-off, Vista Outdoor, seeking declassification of the board. This governance measure, in our view, will lead to greater accountability on the part of individual board members because each would be up for election on an annual basis. Our declassification resolution garnered 92% of the votes cast.

As always, I welcome the opportunity to talk further about our mutual interest on these issues.

Sincerely,



Denise L. Nappier  
State Treasurer