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**Missouri State Treasurer**

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**House Committee on Foreign Affairs' Subcommittee on Terrorism,  
Nonproliferation, and Trade, and the House Committee on Financial Services'  
Subcommittee on Domestic and International Monetary policy, Trade, and  
Technology**

Thank you Chairmen Lantos, Frank, Sherman and Gutierrez and members of the committee. I am so grateful to you for examining this important issue and am very appreciative to be asked to provide a little perspective from the Show-Me State. I believe, as you do, that this is one of the truly critical issues facing our nation. These are unparalleled times, and your leadership on this issue is so important and so very needed.

I fear that too often what is really at stake is forgotten in our national debate. This is really about our families. It is about our husbands and wives, brothers and sisters, sons and daughters. It is about keeping them safe and secure. And in the effort to do so, it seems strange that we send young men and woman to defend us, some of whom pay the ultimate sacrifice --however we have not yet used one of our most powerful weapons – America's financial markets.

We face serious threats around this world from terrorists and terror-sponsoring nations. It was shocking to us in Missouri to find out that we in America are funding the very enemies we're fighting through our investments – billions and billions of dollars worth. And I believe Missourians are in line with the rest of this nation on this issue. A recent poll conducted for the Center for Security Policy showed that more than 80% of those surveyed say that if they learned that a company in which they have invested was found to be doing business in a state sponsor of terrorism, like Iran, Syria or Sudan, they would either sell that investment or demand the company cease doing business with the terror supporting nation.

The attacks that took the lives of thousands on 9/11 cost money. The roadside bombs that kill our soldiers in Iraq and Afghanistan cost money. The nuclear weapons Iran hopes to use on this country cost money. These threats we face can be defeated, but it will take a resolute and comprehensive response. Someone who knew quite a lot about big problems facing our nation had this to say back in 1862: "The dogmas of the quiet past, are inadequate to the stormy present. The occasion is piled high with difficulty, and we must rise – with the occasion. As our case is new, so we must think anew, and act anew. We must disenthrall ourselves, and then we shall save our country." In Missouri, we've heeded that wise admonition and the people have responded by telling us that we are doing the right thing. It is our belief the missing element in the debate thus far has been the use of the economic weapons at our disposal. The war on terror should be fought on this new battlefield - and every American can play a major part – by using

America's financial weapons, the weapons at every American's disposal, we can rise to this occasion, together.

By cutting off these billions of dollars going to known sponsors of terror, we can make a decisive difference in this fight. In Missouri we believe it is wrong to use public money – taxpayers' money -- to fund our enemies and to subject shareholders to the inherent risk associated with these investments. Some of the actions we've taken include the following:

- We've implemented tough anti-terror policies in the Treasurer's office including complete prohibitions on doing business with terror sponsoring nations and companies. And this approach is working -- UBS, Credit Suisse and other companies have stopped doing business in Iran at least in part because of this kind of pressure.
- We've implemented the nation's first terror-free public fund, which screens out terror-tied stocks from the portfolio, managed by State Street Global Advisors, the world's largest institutional investment company. Since inception, our terror free fund has significantly outperformed the international fund benchmark which contains the terror-tied stocks – again, one reason for this, I believe, is that there is a significant risk to share value associated with these stocks, a risk that investors should know about and be protected from.
- We've set up the nation's first terrorism screening policy and divestment procedure for a public pension fund.
- We are in the process of offering the first terror-free mutual fund in a state college savings plan
- We have written and encouraged all the other state treasurers across the country to take similar actions
- We hosted a police and firefighter terror-free investment summit and are now working hand in hand with several of those systems to make them terror-free
- We are currently pressing hard on our legislature to pass a resolution calling on all our state pension systems to go terror-free

You may hear from so-called experts, staff from your pension systems or others, like we did, various arguments made against these policies. While there is room for debate on some issues, our experience in Missouri has shown that that the arguments we heard and that you may hear in the coming weeks were either undocumented, illogical, inconsistent or simply untrue. Let me share with you some of these arguments and our experience in Missouri:

1. "Won't the costs be too high?" – Asset managers typically sell stocks on a daily basis, so the costs should be no different than sales of a stock incurred through the normal buying and selling of stocks within a portfolio. Moreover, most asset managers are compensated on a percentage computed

of assets under management, not their or the custodial banks' actual transaction costs.

In the case of the Missouri Investment Trust's international fund, the fees quoted by State Street for the screening and management of this fund were within a typical management fee for an actively managed product. Indeed, fees quoted by all of the firms responded to our bid were within normal ranges. And again, the performance of the fund has dramatically outpaced its benchmark.

2. "Will Wall Street respond?" – Our experience in seeking managers for our MIT Fund proved otherwise. We received proposals from several Wall Street firms. Additionally, we have seen a number of global asset managers respond with products for states that have adopted laws or policies requiring divestment from Sudan. If institutional accounts demand a new product, history has shown that managers will respond. And we have heard this directly from many asset managers.
3. "Is divestment effective?" – Putting aside the overwhelmingly successful divestment example of South Africa, we have already seen early in this effort a number of companies—foreign as well as domestic—respond to the pressure of institutional shareholders when it comes to the issue of terrorism. For example, last year two global banking giants— UBS and Credit Suisse—announced they were pulling out of Iran. UBS now operates a global security risk management program that speaks to this very issue.
4. "This is too hard or complicated to do" – We have found that, using the services of quality companies and based on a sound policy that clearly defines the nature of business relationships in question, it is relatively straightforward to identify major foreign companies operating in these nations. Even before securing the services of outside help, we were struck by how boldly most European and Asian companies operating in these countries announced their presence in Iran to their stockholders and public via press releases on their website, disclosures in their financial statements or other media.
5. "Will the divestment effort damage returns?" – Once again, our experience at the Missouri Investment Trust proves otherwise. Since inception of our terror-free international fund through the end of February of this year, our fund has outperformed the MSCI EAFE index (the benchmark for core international strategies) by a nonannualized rate of 3.90%.

Additionally, the returns of Missouri's state employee retirement system, MOSERS, continue to be in the upper quartile of its peers after implementation of a new anti-terrorism policy in 2005.

Whatever arguments you may hear, there can be no argument against this: we are engaged in a monumental struggle with the most serious of consequences – as

Lincoln said it is truly a question of saving our country. Every effort and means to win this fight, and every person in this country, should be a part of the victory.

By cutting off billions of dollars of lifeblood to these regimes, we can make a critical difference in this fight. To get there Congress must act, state legislators must act, pensions systems must act, private investors must act and Wall Street must act. But what we need most of all, what will ensure a victory, just as it always has – is that the people of this great country must act. And when we do that, we will find ourselves in a much better, much safer world for our children and our children's children.

Thank you again for this wonderful opportunity to visit with you.