



August 30, 2004

Frank J. Gaffney, Jr., President
Center for Security Policy
1920 L Street, N.W.
Suite 210
Washington, DC 20036

Dear Mr. Gaffney:

On behalf of the National Association of State Retirement Administrators (NASRA), the National Association of State Auditors, Comptrollers and Treasurers (NASACT), the National Conference on Public Employee Retirement Systems (NCPERS), the National Conference of State Legislatures and the National Council on Teacher Retirement (NCTR), we are writing to express our grave concerns with your recent report entitled “Terrorism Investments of the 50 States.” The faulty premise and inflammatory title of the report and the data upon which it was based present a distorted and misleading picture of states and their pension funds. Those entities continue to do everything within their power to ensure their investments are not compromising national security and would not be assisted in their efforts by the information presented or data used in the report.

Indeed, many of our organizations joined together to form the Economic Terrorism Commission shortly after September 11, 2001 to urge federal officials to provide states and their pension funds with information to guard against making investments with hidden terrorist links. We are very hopeful that the SEC’s new Office of Global Security Risk, which Congress established this year, will provide state pension funds, and all U.S. investors for that matter, useful and appropriate information to ascertain whether companies are engaging in business that might support terrorism.

Merely highlighting whether a company or its subsidiary has a business tie to a country on the State Department’s terrorism list—the information on which your report is based—does not disclose whether the company is in some way “aiding and abetting our enemies,” as insinuated. Moreover, following your logic, you could just as easily level the very same inflammatory accusations against virtually any U.S. investor, whether institutional or individual. Public pension funds, whom you have gratuitously chosen to single out for criticism, in fact, invest in the same universe of stocks in which every other U.S. investor invests. There is nothing remarkable about the investments made by public pension funds which might credibly distinguish them from other U.S. investors.

The findings in your report additionally ignore the fact that companies may legally operate within these nations according to the policies established by the U.S. government, which permit various types of business in or with the countries on the list if it is believed they further foreign policy goals. Divesting every company highlighted in your report may simply result in punishing companies whose activities abroad the U.S. government supports or does not oppose, punishing companies whose activities abroad in

no way compromise national security, and unnecessarily harming American companies, jobs, and shareholders.

Like all U.S. investors, we strongly support increased transparency and providing of relevant information to ensure U.S. investors are not unwittingly compromising national security. We continue to reach out to federal officials to this end and urge the creation of a federal list of prohibited investments based on U.S. national security concerns. Companies identified could then be de-listed from national exchanges, excluded from investment programs, and/or removed from benchmarking indexes.

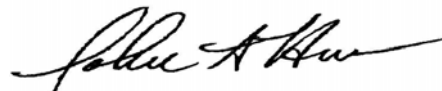
Investors are neither equipped nor empowered to make national security decisions and in fact, some state efforts imposing sanctions have been found to be an unconstitutional infringement on the federal government's foreign policy responsibilities. The federal government is the only credible centralized source of this type of information with the capability to understand the national security implications. We will individually and collectively continue to urge the U.S. government to take the lead to identify and monitor companies that may threaten our national security.

Indeed, we suggest it may prove far easier and more productive in the long run for the federal government to direct appropriate prohibitions and sanctions against the companies engaging in activities determined to be contrary to national security interests, rather than against U.S. investors. This would avoid the imposition of unnecessary and potentially ineffectual punishment on U.S. investors, to say nothing of the U.S. employees who work for the companies in question in activities which are entirely unrelated to the subject behavior.

Sincerely,



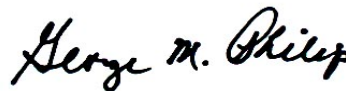
Ed Hennessee, President
National Association of
State Retirement Administrators



Delegate John Hurson, President
National Conference of State Legislatures



John J. Radford, President
National Association of
State Auditors, Comptrollers and Treasurers



George M. Philip
President,
National Council on Teacher Retirement



Robert D. Podgorny, President
National Conference on Public Employee
Retirement Systems

Cc: Cecelia Blye, Director, Office of Global Security Risk, U.S. Securities & Exchange Commission
The Honorable Frank R. Lautenberg, U.S. Senate