



# SOUTH DAKOTA INVESTMENT COUNCIL

4009 West 49th Street, Suite 300  
Sioux Falls, SD 57106-3784 USA  
Phone: (605) 362-2820

## MEMORANDUM

TO: South Dakota Investment Council

FROM: Tammy V. Otten, CPA CFA *TVO*  
Assistant Investment Officer Fixed Income/Derivative

Matthew L. Clark, CFA *MLC*  
State Investment Officer

DATE: January 18, 2018

RE: Compliance with Shareholder Activism Policy

The Shareholder Activism Policy related to Federal Divestiture Enactments (attached) was adopted by the South Dakota Investment Council in April of 2010. This policy was enacted per SDCL 3-12-117 and 2010 House Concurrent Resolution No. 1012 on Sudan. The policy requires an annual report to the Investment Council concerning communications and company responses. The law requires a semi-annual report from the Investment Council to the Executive Board of the Legislature, attached.

- 1. Annual written communication:** The Shareholder Activism Policy requires an annual written communication to a company that is a current investment and appears on the scrutinized companies list (attached). As of June 30, 2017, the South Dakota Retirement System had one direct holding, Volkswagen. On July 10, 2017, a letter was emailed to Andreas Buchta, General Manager, Investor Relations Americas of Volkswagen Group of American, Inc. A reply was not received.
- 2. Shareholder resolutions and proxies:** The policy states that the objectives of the policy should be considered when voting on shareholder resolutions and proxies for the scrutinized companies. The individual responsible for voting proxies has been informed to consider the policy.
- 3. Risk Analysis:** The portfolio managers that analyze Volkswagen have been informed to consider the company's inherent risk in its Sudan business activities in the valuation process as outlined in the Policy.

tvo  
attachments



## **SOUTH DAKOTA INVESTMENT COUNCIL**

**4009 West 49th Street, Suite 300  
Sioux Falls, SD 57106-3784 USA  
Phone: (605) 362-2820**

January 10, 2018

Executive Board  
c/o Jason Hancock, Director  
Legislative Research Council  
500 E. Capitol Ave.  
Pierre, SD 57501

SDCL 3-12-117 requires the Investment Council to report semi-annually the actions related to the shareholder activism policy adopted per Legislature resolution. The law states that, "The report shall include an analysis of the success of the policy in accomplishing the goal of promoting compliance with the federal enactments and its impact on all sales of affected companies." The attached policy was adopted by the Council on April 10, 2010 and was reviewed at the August 28, 2017 meeting.

Actions taken under the policy and the resulting outcomes follow with supporting documents attached. As of August 28, 2017, one company was held on the Sudan company list. A letter was emailed to Volkswagen AG, the majority owner of MAN SE, on July 10, 2017 however a reply email has not been received from the company. The company did provide an email received on October 6, 2016 stating "...to the extent legally feasible for all concerned group companies – that related transactions and business relations (including our business partners) are checked according to national, EU and US export control regulations and are compliant with these legislations."

Investment staff views MAN Group's Sudan involvement to be minimal. SDRS continues to hold a position in Volkswagen which is considered undervalued. The risk assessment for Volkswagen considers the materiality of the Sudan activities and potential for eventual removal of the company from the Sudan list.

Sincerely,

Matthew L. Clark  
State Investment Officer

MLC/tvo

Enclosures  
Cc: South Dakota Investment Council

# **South Dakota Investment Council**

## **Shareholder Activism Policy related to Federal Divestiture Enactments**

**The South Dakota Investment Council (SDIC) Shareholder Activism Policy relates to foreign companies whose securities are held by South Dakota public funds and may be subject to permissive divestiture enactments by the US Government.**

The SDIC will make reasonable efforts, using publicly available information, to determine whether foreign companies whose securities are held by South Dakota public funds are on recognized lists in relation to the Sudan Accountability and Divestiture Act of 2007 or other federal divestiture enactments.

The SDIC will make efforts to formally engage identified companies to urge constructive change in company activities in identified countries. The shareholder activism engagement shall include:

1. **Annual written communication.** The annual written communication shall be repeated until the company is removed from recognized lists or the SDIC no longer invests in the company.
2. **Shareholder resolutions and proxies.** The SDIC shall consider the objectives of this policy when voting on shareholder resolutions and proxies.
3. **Risk Analysis.** The SDIC shall recognize, as part of the company valuation process, the risk inherent in business activities in the identified countries, which could lead to sale through the normal investment process.

The State Investment Officer shall maintain a record of written communications and report to the SDIC annually concerning communications and company responses.

*Adopted: April 20, 2010*



## SOUTH DAKOTA INVESTMENT COUNCIL

4009 West 49th Street, Suite 300

Sioux Falls, SD 57106-3784 USA

Phone: (605) 362-2820

July 10, 2017

Andreas Buchta  
General Manager, Investor Relations Americas  
Volkswagen Group of America, Inc.  
2200 Ferdinand Porsche Drive  
Herndon, VA 20171 USA

E-mail: [Andreas.Buchta@vw.com](mailto:Andreas.Buchta@vw.com)

Dear Andreas:

The South Dakota Investment Council is an investor in shares of Volkswagen AG, the majority owner of MAN SE. The Investment Council manages retirement funds for teachers and other public employees of the State of South Dakota. In order to comply with the 2010 HOUSE CONCURRENT RESOLUTION NO. 1012 of the South Dakota Legislature and Council policy, we are required to contact your company to share our concern about your business activities in Sudan. MAN SE appears on a public list of companies with business activities in Sudan that may contribute to perpetuating genocide through financial support.

The Council requests, at your earliest convenience, a written explanation of the business activities in Sudan and any efforts to assure the activities play a helpful role.

The Council strongly encourages you to cease or to convert to inactive status any business activities that are not consistent with helping end the genocide. We believe failure to do so will cause harm to Volkswagen's world-wide reputation which may negatively impact future business prospects. This may also subject your company to divestiture actions by many large investors throughout the world which may affect the investment value of your company.

Sincerely,

Matthew L. Clark  
State Investment Officer

MLC/tvo

**Compliance with 2010 Legislative Session SB 134 - Sudan Divestiture**  
 (List of Companies from Colorado Report dated 06/23/2017)

Holdings Date: 06/30/2017

Company	Date Added to SDIC List	SDIC Holdings			Comments
		Fund	Portfolio	Ticker Sedol Type Shares	
<b><u>Scrutinized Companies with Activities in Sudan</u></b>					
Andritz AG	03/31/2014		No holdings		
ASEC Company for Mining (ASCOM)	03/20/2015		No holdings		
Bharat Electronics Limited	03/31/2014		No holdings		
Bharat Heavy Electricals Limited	03/31/2014		No holdings		
China Gezhouba Group Company Limited	12/31/2011		No holdings		
China National Petroleum Corporation (CNPC)	07/01/2010		No holdings		
China Natural Gas Corp Ltd	12/31/2016		No holdings		
CNPC General Capital Ltd	09/21/2012		No holdings		
CNPC HK Overseas Capital Ltd	12/31/2011		No holdings		
Daqing Huake Group Co Ltd	07/01/2010		No holdings		
Kunlun Energy Company Ltd (CNPC Hong Kong Ltd)	07/01/2010		No holdings		
PetroChina Co Ltd	07/01/2010		No holdings		
China North Industries Group Corporation (CNGC/NORINCO)	05/31/2011		No holdings		
AKM Industrial Co Ltd	05/31/2011		No holdings		
NORINCO International Cooperation	05/31/2011		No holdings		
North Huajin Chemical Industries (fka Liaoning Huajin Tongda Chemicals)	05/31/2011		No holdings		
North Lingyun Industrial Group	12/31/2016		No holdings		
North Navigation Control Technology	05/31/2011		No holdings		
China Petrochemical Corporation (Sinopec Group)	07/01/2010		No holdings		
China Petroleum & Chemical Corp (Sinopec Corp)	07/01/2010		No holdings		
Sinopec Capital 2013 Ltd	09/20/2013		No holdings		
Sinopec Engineering Group Co Ltd	03/31/2014		No holdings		
Sinopec Group Overseas Development 2012, 2013, 2014, 2015, 2016	09/21/2012		No holdings		
Sinopec Kantons Holdings Ltd	07/01/2010		No holdings		
Sinopec Oilfield Equipment (fka Kingdream PLC)	07/01/2010		No holdings		
Sinopec Oilfield Service Corp (fka Sinopec Yizheng Chemical Fibre)	07/01/2010		No holdings		
Sinopec Shanghai Petrochemical	07/01/2010		No holdings		
China Poly Group Corporation	06/30/2014		No holdings		
Poly Energies Holding Co Ltd	06/30/2014		No holdings		
Poly Property Group Co Ltd	06/30/2014		No holdings		
China Three Gorges Corporation	12/31/2016		No holdings		
China Three Gorges New Energy Corp	12/31/2016		No holdings		
Hubei Energy Group Ltd	12/31/2016		No holdings		
Hubei Qingjian Hydropower Development	12/31/2016		No holdings		
Three Gorges Finance I Cayman Islands	12/31/2016		No holdings		
Three Gorges Finance II Cayman Islands	12/31/2016		No holdings		
DongFeng Motor Group Co Ltd	07/01/2010		No holdings		
Egypt Kuwait Holding Co SAE	07/01/2010		No holdings		
ENGIE	12/31/2016		No holdings		
Parisienne Chauffage Urbain	12/31/2016		No holdings		
GDF Suez Energy Romania	12/31/2016		No holdings		
GAZ Group	03/31/2014		No holdings		
GAZ PJSC (fka GAZ OJSC, GAZ OAO, GAZ Auto Plant)	03/31/2014		No holdings		
Pavlovo Bus (fka Pavlosky Bus Plant)	03/31/2014		No holdings		
Glencore PLC (fka Glencore Xstrata PLC)	05/31/2011		No holdings		
Glencore Australia Holdings Pty	03/11/2016		No holdings		
Glencore Canada Corp (Xstrata Canada Corp)	09/20/2013		No holdings		
Glencore Canada Financial Corp (Xstrata Canada Financial Corp)	09/20/2013		No holdings		
Glencore Finance Canada Ltd (Xstrata Finance Canada Ltd)	09/20/2013		No holdings		
Glencore Finance Dubai Ltd (Xstrata Finance Dubai Ltd)	09/20/2013		No holdings		
Glencore Finance Europe	05/31/2011		No holdings		
Glencore Funding LLC	05/31/2011		No holdings		
Viterra Inc	02/28/2013		No holdings		
Harbin Electric Co Ltd	03/31/2014		No holdings		
Indian Oil Corp Ltd (IOCL)	07/01/2010		No holdings		
Chennai Petroleum Corporation Ltd	07/01/2010		No holdings		
Lanka IOC Ltd	07/01/2010		No holdings		
Jiangxi Hongdu Aviation	07/01/2010		No holdings		
JX Holdings, Inc	05/31/2011		No holdings		
Nippo Corporation	12/31/2011		No holdings		
Toho Titanium Co	03/31/2014		No holdings		

Compliance with 2010 Legislative Session SB 134 - Sudan Divestiture  
(List of Companies from Colorado Report dated 06/23/2017)

Holdings Date: 06/30/2017

Company	Date Added to SDIC List	SDIC Holdings				Comments
		Fund	Portfolio	Ticker Sedol	Type	
<b><u>Scrutinized Companies with Activities in Sudan</u></b>						
Kamaz OJSC	03/11/2016		No holdings			
Neftekamsky Avtozavod	03/11/2016		No holdings			
Kuwait Finance House	07/01/2010		No holdings			
LS Industrial Systems	12/31/2011		No holdings			
MAN SE	03/31/2014		No holdings			
Renk AG	03/31/2014		No holdings			
Volkswagen AG	09/19/2014	SDRS	G6	VOW3.GR	Ordinary	5,400
	09/19/2014	SDRS	G10	VOW3.GR	Ordinary	4,150
Managem SA	09/30/2010		No holdings			
Societe Nationale d'Investissement	03/11/2016		No holdings			
Societe Metallurgique D'Irmiter	09/30/2010		No holdings			
Oil & Natural Gas Corp Ltd (ONGC)						
Mangalore Refinery & Petrochemicals	07/01/2010		No holdings			
ONGC Videsh Limited	07/01/2010		No holdings			
ONGC Videsh Vankomeft	12/31/2016		No holdings			
Oil India Ltd	05/31/2011		No holdings			
Orca Gold Inc	09/20/2013		No holdings			
Pertamina Persero PT	03/20/2015		No holdings			
PETRONAS (Petroleum Nasional Bhd)	07/01/2010		No holdings			
Engen Botswana	03/31/2014		No holdings			
Gas District Cooling Putrajaya Sdn Bhd	07/01/2010		No holdings			
KLCCP Stapled Group	03/20/2015		No holdings			
Malaysia International Shipping Company	03/20/2015		No holdings			
Malaysia Marine & Heavy Engineering Holdings Bhd	03/31/2014		No holdings			
PETRONAS Capital Limited	07/01/2010		No holdings			
PETRONAS Chemicals Bhd	05/31/2011		No holdings			
PETRONAS Dagangan Bhd	07/01/2010		No holdings			
PETRONAS Gas Berhad	07/01/2010		No holdings			
PETRONAS Global Sukuk	12/31/2016		No holdings			
Putrajaya Holdings Snd Bhd	12/31/2011		No holdings			
Power Construction Corp. of China (fka Sinohydro Group Ltd.)	05/31/2011		No holdings			
Dianjian Haxing Ltd	12/31/2016		No holdings			
HydroChina Corp	12/31/2016		No holdings			
Power Construction Corp. of China (fka Sinohydro Group Ltd.)	12/31/2011		No holdings			
Power China Hydropower Development Group (fka Sichuan Power Development Co L	02/28/2013		No holdings			
Power China Real Estate	12/31/2016		No holdings			
Sepcoll Electric Power Construction Shop	12/31/2016		No holdings			
Sinohydro Bureau 4, 7, 8, 11, 14	02/28/2013		No holdings			
Shanghai Electric Group Ltd.	09/18/2015		No holdings			
Shanghai Electric Grp Glb Inc	12/31/2016		No holdings			
Shanghai Electric Group Corp.	09/18/2015		No holdings			
Shanghai Electric Newage	12/31/2016		No holdings			
Shanghai Mechanical & Electrical Industry Co. Ltd	09/18/2015		No holdings			
Trafigura Group Pte	12/31/2016		No holdings			
Trafigura Beheer	05/31/2011		No holdings			
Trafigura Funding SA	12/31/2016		No holdings			

\* Recently added to list

**DFA Note:** Positions were not looked at since we are holders of the company indirectly

None Brandes  
None Sanders