




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
Matthew L. Clark, CFA, State Investment Officer

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

DATE: August 6, 2018

RE: Shareholder Activism Policy related to federal divestiture enactments

During the 2010 Legislative session the SD House & Senate adopted a concurrent resolution with instructions to the State Investment Council. The resolution directed "...the State Investment Council to fight the atrocities in Sudan by activating its Social Activism Policy..." The legislature also passed SB 21 that became part of SDCL 3-12-117 which states, "...the State Investment Council shall establish a shareholder activism policy to engage and promote compliance with federal divestiture enactments by the United State Congress and recognize the risks associated with companies doing business in the countries identified..." Two federal divestiture enactments are listed in federal government documents, Sudan and Iran. Iran divestment is covered by a separate South Dakota law.

The Council adopted a Shareholder Activism Policy on April 20, 2010 to meet the directive of the resolution regarding Sudan and SDCL 3-12-117. The House Resolution directs the Council to apply the policy to "...address the ongoing genocide and other atrocities being committed in Sudan." This is to be accomplished by "...engagement and potential divestment from companies identified by the United States Congress as supporters of the Sudanese government." Public lists of scrutinized companies are used to determine companies to engage.

The Council's Shareholder Activism Policy related to federal divestiture enactments includes the procedures and reporting to meet the directive of the House resolution. The Council also meets the requirements of codified law that the Council report semi-annually on Council actions related to the shareholder activism policy. "The report shall include an analysis of the successes of the policy in accomplishing the goal of promoting compliance with the federal enactments and its impact on all sales of affected companies." The July 10, 2018 update report to the Executive Board of the Legislature is attached and includes all relevant documents.

Colorado's Sudan law sunset in October of 2017 and is no longer providing a list of companies. Staff will utilize the State of Florida's Sudan companies list.

STAFF RECOMMENDATION: *Staff recommends no changes to the Shareholder Activism Policy and the use of Florida's Sudan companies list.*



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

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

DATE: August 6, 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. As of June 30, 2018, the South Dakota Retirement System had no direct holding.
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.
3. **Risk Analysis:** The portfolio managers have been informed to consider a company's Sudan business activities in the valuation process as outlined in the Policy.

tvo
attachments

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: 4/20/10

Most recent review: 8/24/15

HOUSE CONCURRENT RESOLUTION NO. 1012

A CONCURRENT RESOLUTION, Directing the South Dakota State Investment Council to apply its Social Activism Policy to address the ongoing genocide and other atrocities being committed in Sudan.

WHEREAS, the federal government has imposed sanctions against the government of Sudan since 1997; and

WHEREAS, on July 23, 2004, and again on September 25, 2006, the United States Congress declared and reaffirmed that "the atrocities unfolding in Darfur, Sudan, are genocide"; and

WHEREAS, the United States Congress noted that the genocide in Darfur has lead to the "systematic rape of thousands of women and girls, the abduction of women and children, and the destruction of hundreds of ethnically African villages, including the poisoning of their wells and the plunder of their crops and cattle upon which the people of such villages sustain themselves"; and

WHEREAS, over 500,000 people have died and more than 2.5 million people have been displaced from their homes by the Sudanese regime since 2003; and

WHEREAS, the Darfur crisis represents the first time the United States government has labeled the actions of another country as genocide; and

WHEREAS, since 1993 the United States Secretary of State has determined that the government of Sudan has repeatedly provided support for acts of international terrorism:

NOW, THEREFORE, BE IT RESOLVED, by the House of Representatives of the Eighty-fifth Legislature of the State of South Dakota, the Senate concurring therein, that the South Dakota Legislature directs the State Investment Council to fight the atrocities in Sudan by activating its Social Activism Policy which provides a means of engagement and potential divestment from companies identified by the United States Congress as supporters of the Sudanese government.

3-12-117. Investment of assets by investment council--Pooling of funds--Standards for investment--Compliance with federal divestiture enactments. The State Investment Council as provided in § 4-5-12 is responsible for the investment of the assets of the system. The Investment Council may pool the several retirement funds for investment purposes and the investment of such funds is not restricted by the provisions of § 4-5-26, but is governed by the provisions of § 4-5-27. However, the assets of the system may not be used as venture capital, nor may the assets of the system be managed in any manner for the purposes of social investment. The State Investment Council shall invest member trust funds in a manner that is solely designed to provide for the exclusive benefit of the members and benefit recipients of the system. However, the foregoing provisions notwithstanding, the State Investment Council shall establish a shareholder activism policy to engage and promote compliance with federal divestiture enactments by the United States Congress and to recognize the risks associated with companies doing business in the countries identified. Once the United States Congress has acted, the State Investment Council may initiate the shareholder activism policy on its own accord, or shall do so at the direction of the Legislature by resolution. The State Investment Council shall report semi-annually and fifteen months after July 1, 2010 on council actions related to the shareholder activism policy. 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.

Source: SL 1974, ch 35, § 71; SL 1989, ch 39; SL 2010, ch 21, § 3.



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**4009 West 49th Street, Suite 300
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July 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 January 29, 2018 meeting.

The Investment Council had utilized a list of Sudan scrutinized companies developed by the State of Colorado with supplementary reference to a list developed by the State of Florida. Colorado's Sudan legislation was sunset in October of 2017 and no longer provides a list of companies with respect to Sudan. The Investment Council undertook a comparative analysis of other state's Sudan lists. It was determined that utilizing the Florida list, with the addition of the scrutinized companies' subsidiaries, would be the primary source for the South Dakota Sudan scrutinized companies list. Florida provided a new list dated 6/13/18.

The current South Dakota Sudan scrutinized companies list compared to direct investments held by the South Dakota Retirement System is enclosed. There are no holdings of companies that appear on the list therefore no engagement actions were undertaken. The Council will continue to monitor Federal government changes regarding Sudan.

Sincerely,

Matthew L. Clark
State Investment Officer

MLC/tvo

Enclosures
Cc: South Dakota Investment Council

Compliance with 2010 Legislative Session SB 134 - Sudan Divestiture
(List of Companies from Florida Report dated 06/13/2018)

Holdings Date: 06/30/2018

Company	Date Added to SDIC List	SDIC Holdings			Shares	Comments
		Fund	Portfolio	Ticker Sedol		
<u>Scrutinized Companies with Activities in Sudan</u>						
China National Petroleum Corp (CNPC)	07/01/2010		No holdings			
Bank of Kunlun Co (sub of CNPC)	06/25/2018		No holdings			
China Natural Gas Corp Ltd (sub of CNPC)	12/31/2016		No holdings			
China Petroleum Engineering Corp (sub of CNPC)	06/25/2018		No holdings			
CNPC Capital Co Ltd (sub of CNPC)	06/25/2018		No holdings			
CNPC General Capital Ltd (sub of CNPC)	09/21/2012		No holdings			
CNPC HK Overseas Capital Ltd (sub of CNPC)	12/31/2011		No holdings			
Daqing Huake Group Co Ltd (sub of CNPC)	07/01/2010		No holdings			
Kunlun Financial Leasing Co Ltd (sub of CNPC)	07/01/2010		No holdings			
PetroChina Co Ltd (sub of CNPC)	07/01/2010		No holdings			
China Petroleum & Chemical Corp (CPCC Sinopec)	07/01/2010		No holdings			
China Petrochemical Corp (sub of CPCC Sinopec)	07/01/2010	* SDRS	DFA (Indirect)	6206084	184,980	
Sinopec Capital 2013 Ltd (sub of CPCC Sinopec)	09/20/2013		No holdings			
Sinopec Engineering Group Co Ltd (sub of CPCC Sinopec)	03/31/2014	* SDRS	DFA (Indirect)	B92NYC9	65,771	
Sinopec Kantons Holdings Ltd (sub of CPCC Sinopec)	07/01/2010	* SDRS	DFA (Indirect)	6162692	63,191	
Sinopec Oilfield Equipment (sub of CPCC Sinopec)	07/01/2010		No holdings			
Sinopec Oilfield Service Corp (sub of CPCC Sinopec)	07/01/2010		No holdings			
Sinopec Overseas Development 2012-2016 (sub of CPCC Sinopec)	09/21/2012		No holdings			
Sinopec Shanghai Petrochemical (sub of CPCC Sinopec)	07/01/2010		No holdings			
Egypt Kuwait Holding Co SAE	07/01/2010		No holdings			
Energy House Holding Co	06/25/2018		No holdings			
Harbin Electric Co Ltd	03/31/2014	* SDRS	DFA (Indirect)	6422761	48,072	
Indian Oil Corp Ltd (IOCL)	07/01/2010		No holdings			
Chennai Petroleum Corp Ltd (sub of IOCL)	07/01/2010	* SDRS	DFA (Indirect)	6121563	3,106	
Lanka IOC Ltd (sub of IOCL)	07/01/2010		No holdings			
Jiangxi Hongdu Aviation	07/01/2010		No holdings			
Kuwait & Gulf Link Transport Co.	06/25/2018		No holdings			
Kuwait Finance House	06/25/2018		No holdings			
Managem SA	09/30/2010		No holdings			
Societe Metallurgique D'imiter (sub of Managem SA)	09/30/2010		No holdings			
Societe Nationale d'Investissement (sub of Managem SA)	03/11/2016		No holdings			
Oil & Natural Gas Corp Ltd (ONGC)						
Hindustan Petroleum Corp Ltd (sub of ONGC)	06/25/2018		No holdings			
Mangalore Refinery & Petrochemicals (sub of ONGC)	07/01/2010	* SDRS	DFA (Indirect)	6121530	1,566	
ONGC Mangalore Petrochemicals Ltd (sub of ONGC)	06/25/2018		No holdings			
ONGC Videsh Ltd (sub of ONGC)	07/01/2010		No holdings			
ONGC Videsh Vankorneft (sub of ONGC)	12/31/2016		No holdings			
Oil India Ltd	05/31/2011		No holdings			
Orca Gold Inc	09/20/2013		No holdings			
Petroliam Nasional Bhd (Petronas)	07/01/2010		No holdings			
Engen Botswana (sub of Petronas)	03/31/2014		No holdings			
Gas District Cooling Putrajaya Sdn Bhd (sub of Petronas)	07/01/2010		No holdings			
KLCC Property Holdings Bhd (sub of Petronas)	06/25/2018		No holdings			
KLCCP Stapled Group (sub of Petronas)	03/20/2015		No holdings			
Malaysia International Shipping Co (sub of Petronas)	03/20/2015		No holdings			
Malaysia Marine & Heavy Engineering Holdings Bhd (sub of Petronas)	03/31/2014	* SDRS	DFA (Indirect)	B3W5NN7	14,806	
MISC Berhad (sub of Petronas)	06/25/2018		No holdings			
Petronas Capital Ltd (sub of Petronas)	07/01/2010		No holdings			
Petronas Chemicals Group Bhd (sub of Petronas)	05/31/2011		No holdings			
Petronas Dagangan Bhd (sub of Petronas)	07/01/2010		No holdings			
Petronas Gas Berhad (sub of Petronas)	07/01/2010		No holdings			
Petronas Global Sukuk (sub of Petronas)	12/31/2016		No holdings			
Putrajaya Holdings Sdn Bhd (sub of Petronas)	12/31/2011		No holdings			

* **DFA Note:** Holdings are an estimate based on total fair value as of 05/31/18; we are holders of the company indirectly

None Internal
None Brandes
None Sanders