



EXECUTIVE CHAMBERS

HONOLULU

December 23, 2010

NEIL ABERCROMBIE
GOVERNOR

The Honorable Calvin Say, Speaker
House of Representative
Twenty-Sixth State Legislature
State Capitol, Room 431
Honolulu, Hawaii 96813

Dear Speaker Say:

Subject: Act 192, SLH 2007- Relating to the Employees' Retirement System

The provisions in Act 192, section 5, require the Employees' Retirement System to provide an annual report to the Legislature regarding its direct holdings in companies that provide significant practical support for genocide activities being conducted by the Sudanese government in the Darfur region. The report is to include a summary of correspondence with companies engaged by the public fund; all investments sold, redeemed, divested, or withdrawn; all prohibited investments; and, any progress made. You may also electronically view the report at <http://hawaii.gov/budget/LegReports/> pursuant to Act 231, Session Laws of Hawaii 2001.

If you have any questions on this matter, please call Mr. Rodney June, ERS' Chief Investment Officer, at 586-1727.

Sincerely,

/s/

NEIL ABERCROMBIE

Enclosure



EXECUTIVE CHAMBERS

HONOLULU

December 23, 2010

NEIL ABERCROMBIE
GOVERNOR

The Honorable Shan Tsutsui, President
Senate
Twenty-Sixth State Legislature
State Capitol, Room 409
Honolulu, Hawaii 96813

Dear President Tsutsui:

Subject: Act 192, SLH 2007- Relating to the Employees' Retirement System

The provisions in Act 192, section 5, require the Employees' Retirement System to provide an annual report to the Legislature regarding its direct holdings in companies that provide significant practical support for genocide activities being conducted by the Sudanese government in the Darfur region. The report is to include a summary of correspondence with companies engaged by the public fund; all investments sold, redeemed, divested, or withdrawn; all prohibited investments; and, any progress made. You may also electronically view the report at <http://hawaii.gov/budget/LegReports/> pursuant to Act 231, Session Laws of Hawaii 2001.

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/s/

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Enclosure

EMPLOYEES' RETIREMENT SYSTEM
OF THE STATE OF HAWAII
DIRECT HOLDINGS IN SUDAN SCRUTINIZED COMPANIES

Act 192, Session Laws of Hawaii 2007, expresses the State's desire to not participate in ownership of companies that provide significant practical support for genocide activities being conducted by the Sudanese government in the Darfur region.

The Board of Trustees of the Employees' Retirement System recognizes the intent of Act 192 and will abide by its requirements. The Board, however, must also apply a decision framework to act for the exclusive benefit of ERS Plan participants. In this respect, the Board recognized that divestment activities could potentially increase the portfolio's idiosyncratic investment risk. Divestment guidelines and procedures, codified in the ERS' *Sudan Investment Policy* ("Policy"), were therefore developed to minimize the impact of the Sudan divestment policy upon the investment results of the ERS portfolio. The Sudan divestment policy is intended to also avoid:

- Discriminating against companies whose Sudan-related business activities are supported by the U.S. government;
- Discriminating against companies whose Sudan-related business activities do not support genocide activities;
- Unnecessarily harming U.S. companies and jobs; and
- Compromising the Board of Trustees' duties to the beneficiaries of the ERS.

The ERS was required to make its best efforts to identify all of its direct holdings in scrutinized companies within 180 days after July 1, 2007. Those efforts were to include:

- Reviewing publicly available information regarding companies with business operations in Sudan provided by nonprofit organizations and other appropriate parties;
- Contacting ERS' asset managers with investments in scrutinized companies; and
- Contacting other institutional investors that have divested from or engaged with companies that have business operations in Sudan.

Each year thereafter, Act 192 requires the ERS to provide to the legislature a publicly-available report that includes activity under section 4, to include: 1) A summary or correspondence with companies engaged by the public fund; 2) All investments sold, redeemed, divested, or withdrawn; 3) All prohibited investments; and, 4) Any progress made. The ERS respectfully reports all pertinent activity in 2010 related to Sudan Scrutinized Companies as outline in Act 192:

I Summary of correspondence with companies engaged by public fund:

The ERS relied on the *Sudan Company Report* prepared by the Conflict Risk Network (“CRN” and formerly known as the Genocide Intervention Network or “GIN”) to determine “scrutinized companies,” whose certain business activities in Sudan may determine their status as a “Highest Offender.” Highest offenders are subject to possible divestment in accordance with the Policy.

Before taking any action against the company, the ERS Board considers any additional information they may provide. The ERS will send a letter to the scrutinized company to inform them of their Sudan-related activities, and encourage them to cease their scrutinized active business operations within 90 days. If the company continues to have scrutinized active business operations after ninety days following the first engagement by ERS, the Board will consider divestment or other corrective actions to the extent possible with due consideration from among other things, return on investment, diversification, and the ERS’ other legal obligations. Failure to respond to the ERS letter may lead to divestment action. Four “Highest Offender” companies were held in the ERS portfolio in 2010 including PTT Public Company Ltd., Seadrill Ltd., Glencore Funding LLC, and Dongfeng Motor Group Co. Ltd. The status of these companies is summarized below.

PTT Public Company Limited (“PTT”) appeared on the GIN Highest Offenders list on November 30, 2009. The ERS sent an engagement letter to PTT on Dec 2, 2009 and February 2, 2010; there was no response received from PTT. The Board of Trustees approved a divestment from PTT on June 14, 2010. One ERS investment manager continues to hold the stock position and is plans to divest according to statutory deadline.

Glencore Funding LLC (“Glencore”) appeared on the GIN Highest Offenders list on February 28, 2010. The ERS sent an engagement letter to Glencore on May 11, 2010 with a response received on May 28, 2010. The letter did not specifically clarify its Sudan-related activities nor did it address its plan to exit its scrutinized Sudan business activities. On August 16, 2010, the Board of Trustees approved the divestment of Glencore Funding LLC. The ERS investment manager completed its divestment of Glencore Funding LLC on August 31, 2010.

Seadrill Ltd. (“Seadrill”) appeared on the GIN Highest Offender list on November 30, 2009. One ERS investment manager already held a position in this security at the time the list was issued. An engagement letter was sent to Seadrill with a response returned to the ERS dated January 15, 2010; and a more detailed response returned to the ERS dated March 4, 2010. The letters did not specifically clarify its Sudan-related activities nor did

it address its plan to exit its scrutinized Sudan business activities. The ERS investment manager exited its position of Seadrill in February 2010 before any action was initiated by the Board of Trustees.

Dongfeng Motor Group Co. Ltd. (“Dongfeng”) appeared on the GIN Highest Offender list on May 31, 2010. One ERS investment manager already held a position in this security at the time the GIN Highest Offender list was issued. An engagement letter was sent to Dongfeng on June 7, 2010 with no response received by the ERS. The investment manager exited its position of Dongfeng on June 18, 2010 before any action was initiated by the Board of Trustees.

II All Investment Sold, Redeemed, Divested or Withdrawn

<u>Action</u>	<u>Company Divested</u>	<u>Market Value</u> ¹
Sold: February 25, 2010	Seadrill	\$57,215
Sold: June 18, 2010	Dongfeng Motor Group Co. Ltd.	\$9,245,140
Sold: August 31, 2010	Glencore Funding LLC	\$2,221,320

¹ Market Value in US Dollars at time of divestment

III All Prohibited Investments

Companies held in the 2010 calendar year
Dongfeng Motor Group Co. Ltd.
Glencore Funding LLC
PTT Public Company Ltd.
Seadrill Ltd.

IV Any Progress Made

<u>Company</u>	<u>Status</u> ¹
Dongfeng Motor Group Co. Ltd.	Dongfeng Motor Group Co., Ltd. (DFL) is a China-based producer and exporter of commercial and passenger vehicles and equipment. Various reports suggest that it has sold military-grade vehicles to the Government of Sudan. DFL's military-grade transport vehicles meet the definition of "Military Equipment" under the targeted Sudan divestment legislative model, and it is therefore considered to have "Scrutinized Business Operations." (Note: The ERS reports that security positions are fully divested.)
Glencore Funding LLC	Glencore's Sudan-related operations appear to have begun in September 2003, and are concentrated on the purchase of crude oil and associated oil products. Though Glencore does not appear to have a physical presence within Sudan, its transport of crude oil may assist the Sudanese government in generating revenue from its oil industry. Glencore's purchase of Sudanese crude oil constitutes "Oil-Related Activities" under the targeted Sudan divestment legislative model, and classifies it as "Scrutinized." (Note: The ERS reports that security positions are fully divested.)
PTT Public Company Ltd.	PTT has a history of purchasing Sudan's Dar Blend crude and transporting Sudanese crude, which constitutes "Oil-Related Activities" under the Sudan divestment legislative model and classifies it as "Scrutinized." One investment managers continues to hold PTT Public Company Ltd. (Note: The ERS manager plans to divest from this position prior to the statutory deadline of August 2011.)
Seadrill Ltd.	Company was removed as a "Highest Offender" on November 30, 2010 as a result of no further Sudan-related operations. (Note: The ERS positions were fully divested prior to company removal from the list.)

¹ Source: *Sudan Company Report* – Conflict Risk Network, November 30, 2010