

OFFICE OF THE STATE TREASURER
MEMORANDUM



TO: The Honorable Denise L. Nappier, State Treasurer

FROM: Christine Shaw, Chief Compliance Officer

DATE: May 26, 2016

SUBJECT: *Annual Report on the Connecticut Retirement Plans and Trust Funds' Activities under Various Statutory Investment Restrictions*

INTRODUCTION

Pursuant to sections 3-13g, 3-13h and 3-21e of the Connecticut General Statutes, the purpose of this memo is to provide an annual report of the status of investment restrictions concerning companies doing business in Iran, Northern Ireland and Sudan.

BACKGROUND

The Investment Policy Statement's Appendix C, Section I, describes a statutory framework which establishes criteria for the Treasurer's evaluation of investments in companies doing business in Iran, Northern Ireland, and Sudan. In addition, it prescribes a process for engaging companies that may lead to a decision to either prohibit investment in or divestment from such companies.

In addition to the Investment Policy Statement and relevant statutes, the CRPTF's investment managers are contractually required to annually certify that: (i) they do not hold any securities in prohibited companies identified by the CRPTF; (ii) there are adequate procedures in place to prevent the purchase of such securities; and (iii) they have conducted a global security risk assessment of any portfolio company that has financial ties or businesses activities in federally designated terrorist sponsoring countries, and in which funds have been invested on behalf of the CRPTF.

DISCUSSION

Iran

In 1984, Iran was designated by the U.S. Department of State as a state sponsor of terrorism, and since then commercial activity in the country has been significantly limited. Most recently, in July of 2015, the U.S. (along with five other countries¹) announced the consummation of the so-called “Iran nuclear deal,” which limits Iran’s ability to develop nuclear weapons in exchange for the lifting of certain sanctions relating to the sale of oil and gas, as well as access to the U.S. financial system. While Iran has since fulfilled certain commitments related to its nuclear program (and as a result, there was a limited easing of certain nuclear-related sanctions in January of 2016), the State Department’s designation remains in place, and U.S. and international economic sanctions continue to discourage commercial activity in the country.

According to the U.S. Government Accountability Office (“GAO”), the United States continues to ban “almost all non-humanitarian U.S. trade and investment with Iran and has prohibited firms from knowingly transshipping U.S. goods to Iran through other nations.”²

Currently, there are five companies and nine subsidiaries that are restricted from investment by CRPTF managers. There were no changes to the list during Fiscal Year 2016. A copy of the *Iran Restricted Companies List* is attached at Appendix A.

Northern Ireland (MacBride)

The MacBride Principles are a corporate code of conduct designed to address religious discrimination in the workplace for companies doing business in Northern Ireland. **The CRPTF currently restricts its managers from investing in two companies for failure to adopt these principles: Domino’s Pizza Inc. and Yum Brands, Inc.** The restriction has been in place and unchanged since January of 2014. In July of 2015, the Treasury again wrote to these companies and no response was received. Therefore, there were no changes to the list during Fiscal Year 2016.

A copy of the *MacBride Restricted Companies List* is attached at Appendix B.

¹ China, France, Germany, Russia and the United Kingdom.

² http://www.gao.gov/key_issues/iran_sanctions/issue_summary

Sudan

Since the formation of the Republic of South Sudan in July of 2011, there has been a worsening of the humanitarian crisis in Sudan and the regions bordering the two countries – Darfur, South Kordofan and Blue Nile, in particular. This crisis has been exacerbated by the decline in global oil prices in 2015 and 2016 and resulting loss of revenues.

According to the World Bank, “[t]he near absence of inclusive public institutions that can adequately mediate demands for power and wealth sharing between the center and the periphery has been an underlying source of fragility and conflict in Sudan.”³ The World Bank also cites the secession of South Sudan as the cause of “multiple economic shocks” that include “the loss of the oil revenue which accounted for over half of government revenues and 95% of exports. This has left huge macro-economic and fiscal challenges, much reduced economic growth, and double-digit consumer price inflation which, together with increased fuel prices, triggered violent protests in September 2013.”⁴

According to the Treasury’s Sudan program consultant, EIRIS Conflict Risk Network, “[f]ighting along the border holds significant implications for the private sector in Sudan.”⁵ As a result of the civil war in South Sudan, there has been loss of an estimated 100,000 lives and displacement of as many as 2 million people since December of 2013, and a “dramatically curtailed... flow of oil from [South Sudan].”⁶

Currently, there are eleven (11) companies and six (6) subsidiaries that are restricted from investment by CRPTF managers. Based on information provided by EIRIS Conflict Risk Network, the CRPTF’s *Sudan Restricted Companies List* was revised in April of 2015 to reflect the following changes:

- Five companies were removed:
 - Sudan Telecom (Sudatel) is now listed as private with no public exposure.
 - Wartsila Oyj was removed from the “scrutinized” list after EIRIS received updated information on the company’s humanitarian efforts in

³ <http://www.worldbank.org/en/country/sudan/overview>

⁴ *Id.*

⁵ EIRIS Conflict Risk Network, Sudan Company Report, 2Q2016, *Instability and Conflict Along the Contested Sudan-South Sudan Border – Oil*.

⁶ *Id.*

South Sudan. This action follows EIRIS' engagement with the company that began in 2009.

- AviChina Industry & Technology Ltd. and its subsidiaries, Harbin Dongan Auto Engine Co. and Hafei Aviation Industry Co. were removed from EIRIS' Sudan report in November 2013, because it determined that "the company no longer holds a majority of the shares in Jiangxi Hongdu Aviation Industry Co. Ltd., a company involved in the sale of military-grade aircraft to the Government of Sudan...."
- Two companies were changed based on updated information from EIRIS:
 - China North Optical-Electrical Technology Co. Ltd. changed its name to "North Navigation Control Technology Co. Ltd."
 - Liaoning Huajin Tongda Chemicals Co. Ltd. changed its name to "North Huajin Chemical Industries Co. Ltd."

Note: The CRPTF does not have exposure to any of the newly-named companies.

A copy of the *Sudan Restricted Companies List* is attached at Appendix C.

APPENDIX A

Rev. 9/5/13

Iran: Restricted Companies List⁷

Pursuant to Section 3-13g of the Connecticut General Statutes, the Office of the Treasurer prohibits direct investment in the following companies:

China National Offshore Oil Corporation and the following subsidiaries:

China Bluechemical
China Oilfield Services Ltd.
CNOOC
Offshore Oil Engineering Co.

Daelim Industrial Co. Ltd.

Indian Oil Corporation Ltd. (IOCL) and the following subsidiaries:

Bongaigaon Refinery & Petrochemicals
Chennai Petroleum Corp. Ltd.
IBP Co. Ltd.
Lanka Ioc plc

Oil India Ltd.

Petroleos de Venezuela S.A.

Ca La Electricidad de Caracas

⁷ Reflects **removal** of one company (including subsidiaries) from prohibited investment status, Sasol Ltd.

APPENDIX B

Rev. 1/29/14

MacBride: Restricted Companies List⁸

Pursuant to Section 3-13h of the Connecticut General Statutes, the Office of the Treasurer prohibits direct investment in the following companies:

Domino's Pizza Inc.

Yum Brands, Inc.

⁸ Reflects **removal** of two (2) companies from prohibited investment status, PPG Industries, Inc. and Sally Beauty Holdings Inc.

APPENDIX C

Rev. 4/15/16

Sudan: Restricted Companies List⁹

Pursuant to Section 3-21e of the Connecticut General Statutes, the Office of the Treasurer prohibits direct investment in the following companies:

Bharat Heavy Electricals Ltd. (BHEL)

China North Industries Group and the following subsidiaries:

AKM Industrial Co. Ltd.

China North Industries Corporation a.k.a. NORINCO

NORINCO International Cooperation Ltd.

North Huajin Chemical Industries Co. Ltd. (f.k.a. Liaoning Huajin Tongda Chemicals Co. Ltd.)

North Navigation Control Technology Co. Ltd. (f.k.a. China North Optical-Electrical Technology Co. Ltd.)

Sichuan Nitrocell Co. Ltd.

China Petroleum and Chemical Corp.

CNPC (Hong Kong)

Dongfeng Motor Corporation

Jiangxi Hongdu Aviation Industry Ltd.

MISC Bhd

Oil and Natural Gas Corp. (ONGC)

PetroChina Co. Ltd.

Petronas Capital Ltd.

Sinopec Shanghai Petrochemical Corp.

⁹ Reflects **removal** of five (5) companies from prohibited investment status: AviChina Industry & Technology Ltd.; Hafei Aviation Industry Co.; Harbin Dongan Auto Engine Co.; Sudan Telecom (Sudatel); and Wartsila Oyj.

Also reflects **changes** in the corporate names of China North Optical-Electrical Technology Co. Ltd. (now known as North Navigation Control Technology Co. Ltd.) and Liaoning Huajin Tongda Chemicals Co. Ltd. (now known as North Huajin Chemical Industries Co. Ltd.).