JAN 15 2020

SOUTH DAKOTA INVESTMENT COUNCIL

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

January 13, 2020

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 House Concurrent Resolution No. 1012 directed the State Investment Council to activate a Social Activism Policy regarding Sudan. The enclosed policy was adopted by the Council on April 10, 2010 and was most recently reviewed at the August 26, 2019 meeting. Additional information provided to the Investment Council for their August 26, 2019 meeting is also enclosed.

The primary source for the South Dakota Sudan scrutinized companies list is compiled by Florida, with the addition of the scrutinized companies' subsidiaries. The current South Dakota list is enclosed. There are currently no companies directly held by the South Dakota Retirement System that appear on the list therefore no engagement actions have been required. 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

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MEMORANDUM

TO: South Dakota Investment Council
Matthew L. Clark, CFA, State Investment Officer MLC

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

DATE: August 8, 2019

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 3-12C-223 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 3-12C-223. 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 18, 2019 update report to the Executive Board of the Legislature is attached and includes all relevant documents.

The State of Florida's Sudan scrutinized companies list is utilized by the Council.

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

tvo

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MEMORANDUM

TO: South Dakota Investment Council

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

Matthew L. Clark, CFA MLC
State Investment Officer

DATE: August 8, 2019

RE: Compliance with Shareholder Activism Policy

The Shareholder Activism Policy related to Federal Divestiture Enactments was adopted by the South Dakota Investment Council in April of 2010, attached. This policy was enacted per SDCL 3-12C-223 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). Currently, there are no directly held companies that appear on the list.

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 that hold a company on the list are informed to consider the company's inherent risk in its Sudan business activities in the valuation process as outlined in the Policy.

two
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: 8/26/19

Compliance with 2010 Legislative Session SB 134 - Sudan Divestiture
(List of Companies from Florida Report dated 12/03/2019)

Holdings Date: 12/31/2019

Company	Date Added to SDIC List	SDIC Holdings Fund	Portfolio	Shares	Comments
Scrutinized Companies with Activities in Sudan					
AviChina Industry & Technology (AviChina)	06/30/2019	* SDRS	DFA (Indirect)	151,788	
AVIC International (sub of AviChina)	06/30/2019	* SDRS	DFA (Indirect)	330,904	
		* SDRS	DFA (Indirect)	18,213	
China Avionics Systems (sub of AviChina)	06/30/2019		No holdings		
FACC AG (sub of AviChina)	06/30/2019		No holdings		
China National Petroleum Corp (CNPC)	07/01/2010		No holdings		
Bank of Kunlun Co (sub of CNPC)	06/25/2018		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 Energy Co Ltd (sub of CNPC)	06/25/2018		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 Petrochemical Corporation (Sinopec Group)	12/31/2019		No holdings		
Sinopec Century Bright Capital Investment Ltd (sub of Sinopec Group)	12/31/2019		No holdings		
China Petroleum & Chemical Corp (CPCC Sinopec)	07/01/2010		No holdings		
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)	89,250	
Sinopec Group Overseas Development 2012-2016 (sub of CPCC Sinopec)	09/21/2012		No holdings		
Sinopec Kantons Holdings Ltd (sub of CPCC Sinopec)	07/01/2010	* SDRS	DFA (Indirect)	64,992	
Sinopec Oilfield Equipment (sub of CPCC Sinopec)	07/01/2010		No holdings		
Sinopec Oilfield Service Corp (sub of CPCC Sinopec)	07/01/2010	* SDRS	DFA (Indirect)	1,861	
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 (Energy House)	06/25/2018		No holdings		
Al-Enmaa Real Estate Co (sub of Energy House)	06/30/2019		No holdings		
Harbin Electric Co Ltd	03/31/2014	* SDRS	DFA (Indirect)	52,717	
Indian Oil Corp Ltd (IOCL)	07/01/2010		No holdings		
Chennai Petroleum Corp Ltd (sub of IOCL)	07/01/2010	* SDRS	DFA (Indirect)	3,188	
Lanka IOC Ltd (sub of IOCL)	07/01/2010		No holdings		
Jiangxi Hongdu Aviation	07/01/2010		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)	9,090	
ONGC Mangalore Petrochemicals Ltd (sub of ONGC)	06/25/2018		No holdings		
ONGC Videsh Ltd (sub of ONGC)	07/01/2010		No holdings		
Oil India Ltd	05/31/2011	* SDRS	DFA (Indirect)	6,677	
Orca Gold Inc	09/20/2013		No holdings		
Petroliam Nasional (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		
Malaysia Marine & Heavy Engineering Holdings Bhd (sub of Petronas)	03/31/2014	* SDRS	DFA (Indirect)	12,364	
MISC Berhad (sub of Petronas)	06/25/2018		No holdings		
Petronas Capital Ltd (sub of Petronas)	07/01/2010		No holdings		
Petronas Chemicals 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 Management Sdn Bhd (sub of Petronas)	12/31/2011		No holdings		

* **DFA Note:** Holdings are an estimate based on total fair value as of 11/30/19; we are holders of the company indirectly

None Internal
None Sanders