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CORRESPONDENCE MEMORANDUM

DATE: May 3, 2007
TO: Wisconsin Deferred Compensation Board
FROM: Shelly Schueller, Director
Wisconsin Deferred Compensation Program
SUBJECT: Sudan Investments/Divestment

At the February 27, 2007, Deferred Compensation Investment Committee meeting, the Committee members asked Department staff to research the issue of Sudan Investments/Divestment and present a report to the Board at its meeting on May 15, 2007.

Background

Sudan, a nation in East Africa, was granted independence by Egypt and the United Kingdom on January 1, 1956. Civil war has ruled the region since that time. Sudan has rich mineral resources, including oil and natural gas. Recent oil production has boosted Sudan's economy, though its per capita income remains relatively low. In 2003, conflict in the Sudan's Darfur region erupted. The government reacted by arming a militia and beginning a genocidal campaign. The United Nations (UN) estimates that at least 400,000 people have been killed and 2 million others left homeless in Darfur since 2003.

The Department recognizes the tragedy that is occurring in the Sudan. It is not clear what can be done to effect change. Some argue that divestment from investments in Sudan and companies doing business in Sudan is the answer. Others believe that a diplomatic approach is the best option.

International pressure to encourage Sudan to end the genocide in the Darfur region has been increasing, including the insertion of UN peacekeepers in the region. China, Sudan's major trading partner, has been pressured to encourage Sudan to accept UN peacekeeping forces. The situation remains precarious. The Sudan government has a history of reneging on peacekeeping agreements. In addition, the UN has no standing army, so it could take months before any UN forces arrive in Sudan.

Many states have introduced legislation intended to help address the crisis in the Sudan. Most recently, on April 19, 2007, Colorado Governor Bill Ritter signed HB 1184. Colorado is the ninth state to pass divestment legislation. Seventeen other states are currently considering a targeted divestment model. See Attachment "A" that outlines state efforts regarding Sudan divestment.

Reviewed and approved by Dave Stella, Deputy Secretary

Signature

Date

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ATTACHMENT “B”

Per the Sudan Divestment Task Force fund screener, the following investments within each fund have ties to the Sudanese region. The criteria used in the evaluation are as follows:

Developed in consultation with foreign policy experts, asset managers, third-party research firms, and other institutions, this policy allows for maximum impact on the government of Sudan while minimizing harms to both Sudanese citizens and to portfolio returns. Essentially the criteria targets companies that:

1. Have a business relationship with the government or government-created project,
2. Impart minimal benefit to the country's underprivileged, and
3. Have demonstrated no substantial corporate governance policy regarding the Darfur situation.

Fund Name	Company Name w/ties to the Sudan	% of holdings
American Funds EuroPac	Reliance Industries	.57
BGI EAFE Index	Rolls Royce	.11
	Alstom	.05
	Lundin Petroleum	.01
Fidelity ContraFund	Schlumberger	.82
	Petro China	.38
	China Petro & Chem	.10
Vanguard Inst Index	Schlumberger	.45
Vanguard Wellington	Schlumberger	.58
Vanguard Target Retirement Funds	Petro China Reliance Industries China Petro & Chem Oil and Natural Gas Corp Bharat Heavy Electrical Sinopac Holding Sinopec Shanghai Petro Reliance Energy Ltd Sinopec Yizheng Chemical Electricity Generating	Varies by fund

The Sudan exposure in the Vanguard Target Date funds comes from their investment in the Vanguard Emerging Markets Index, which tracks the MSCI Emerging Market Index. The Vanguard Emerging Markets Index carries the following weights in each Target Date fund:

Target Date Income - 0.8%

Target Date 2015 - 1.6%

Target Date 2025 – 2%

Target Date 2035 – 2.4%

Target Date 2045 – 2.3%

The following funds have no Sudanese ties:

DFA US MicroCap
BGI Small Cap Index
T. Rowe Price Mid Gr
BGI Mid Cap Index
Calvert Soc Inv Equity

Source: Sudan Divestment Task Force which has partnered with Invested Interests, a socially responsible investment firm.

In Wisconsin, Senate Bill (SB) 57 was introduced by Senators Harsdorf, Coggs, Erpenbach, Grothman, Lehman, Risser and Sullivan on February 21, 2007. SB57 would prohibit the State of Wisconsin Investment Board (SWIB) from making certain investments relating to the Sudan. David Mills, Executive Director of SWIB, testified at the public hearing on this bill on March 28, 2007. In his statement, Mr. Mills commended the sponsors of the legislation for their efforts to draw attention to the situation in the Sudan. Mr. Mills went on to state, however, that he opposed the legislation because of its direct conflict with his fiduciary duty.

SB57 does not directly affect the Wisconsin Deferred Compensation (WDC) Program. But like SWIB, the Board has a fiduciary duty to provide the best possible investment options for the benefit of WDC participants and may not select or deselect investment options for any other purpose. While the Board has a fiduciary obligation to provide sound investment options, it is also in a position to educate participants about social investing and the influence participants may have when selecting where to invest their deferrals.

With that in mind, staff recommends the Board consider requesting that staff help educate WDC participants about investing for social change. These could include:

1. Articles on socially conscious investments in the WDC newsletter, *Money Talks*, and on the WDC's website;
2. Posting additional information on the WDC's socially responsible fund: The Calvert Social Investment Equity (Calvert) Fund. Calvert recently partnered with the Sudan Divestment Task Force in response to the crisis in the Sudan;
3. Providing a list of "Sudan-free" WDC investment options and identifying those companies with business ties to the Sudan (See Attachment B); and
4. Including links or addresses of reputable sources for more information.

At the Investment Committee's direction, Great-West Retirement Services has requested information from WDC fund providers regarding their investment policies and position in the Sudan. Attached are two articles (Attachments C and D) that discuss investment in the Sudan from Fidelity and Calvert. Staff will provide additional information to the Board when it becomes available.

Finally, attached for the Board's information is a letter (Attachment E) that the Board received from a WDC participant regarding the Sudan, as well as the Department's response on behalf of the Board. Department staff will continue to monitor this situation and keep the Board apprised of future developments.

Recommendation

Staff recommends that the Board request additional information on what options for social investing exist in the WDC.

Attachments