



EXECUTIVE CHAMBERS
HONOLULU

LINDA LINGLE
GOVERNOR

December 17, 2008

The Honorable Calvin Say, Speaker
House of Representative
Twenty-Fourth 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a summary of correspondence with companies engaged by the public fund; all investments sold, redeemed, divested, or withdrawn; all prohibited investments; and, any progress made.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/

LINDA LINGLE

Enclosure



EXECUTIVE CHAMBERS
HONOLULU

LINDA LINGLE
GOVERNOR

December 17, 2008

The Honorable Colleen Hanabusa, President
Senate
Twenty-Fourth State Legislature
State Capitol, Room 409
Honolulu, Hawaii 96813

Dear President Hanabusa:

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a summary of correspondence with companies engaged by the public fund; all investments sold, redeemed, divested, or withdrawn; all prohibited investments; and, any progress made.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/

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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, expressed 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 were therefore developed to minimize the impact of the Sudan divestment policy upon the investment results of the ERS portfolio. The 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 one hundred eighty days after July 1, 2007. Those efforts included:

- 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: 1) A summary of 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 the following activities related to Sudan Scrutinized Companies as outlined in Act 192:

I. Summary of correspondence with companies engaged by the ERS:

The ERS relies on the *Sudan Company Report* prepared by the Genocide Intervention Network 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 Sudan divestment 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 scrutinized company status, offer them the opportunity to clarify their Sudan-related activities, and encourage them to cease their scrutinized active business operations within ninety 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.

A summary of the correspondence with scrutinized companies in 2008 is presented below:

<u>Date of Letter</u>	<u>Nature of Correspondence</u>
January 30, 2008	Clarification of activities in Sudan sent to: Electricity Generating Company Alstom China Petrochemical Corporation
February 22, 2008	Explanation of activities in Sudan received from: Alstom
April 17, 2008	Clarification of activities in Sudan sent to: Electricity Generating Company ¹ China Petrochemical Corporation ¹
April 17, 2008	Clarification of activities in Sudan sent to: Ranhill Berhad
April 22, 2008	Clarification of activities in Sudan sent to: China National Petroleum Company
June 16, 2008	Clarification of activities in Sudan sent to: Ranhill Berhad ¹ China National Petroleum Company ¹
July 22, 2008	Clarification of activities in Sudan sent to: ABB Ltd.
August 5, 2008	Explanation of activities in Sudan received from: ABB Ltd.

¹Due to no response to the first letter, a second letter was sent to the company.

II. Investments Sold, Redeemed, Divested or Withdrawn

<u>Board Action</u>	<u>Companies divested</u>	<u>Market value</u> ²
May 19, 2008	Alstom	\$ 3,696,134
	Electricity Generating Company	677,825
	China Petrochemical Corporation	4,763,799
June 3, 2008	China National Petroleum Company	275,804 ³
August 11, 2008	Ranhill Berhad	<u>18,230</u>
TOTAL		\$ 9,431,792

III. Prohibited Investments

Companies held during 2008 calendar year

Alstom
Electricity Generating Company
China Petrochemical Corporation
China National Petroleum Company
Ranhill Berhad
ABB Ltd.

IV. Progress Made

<u>Company</u>	<u>Status</u>
Alstom	No change in business operations; Divested
Electricity Generating Company	No change in business operations; Divested
China Petroleum & Chemical (Sinopec)	No change in business operations; Divested
China National Petroleum Company	No change in business operations; Sold ³
Ranhill Berhad	No change in business operations; Divested
ABB Ltd.	No change in business operations; Board approved divestment on December 8, 2008

²Market value at time of divestment.

³Position in China National Petroleum Company was sold by investment manager prior to Board action.