



DENISE L. NAPIER
TREASURER

State of Connecticut
Office of the Treasurer

June 7, 2017

Members of the Investment Advisory Council

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

Dear Fellow IAC Member,

Enclosed you will find the *Annual Report on the Connecticut Retirement Plans and Trust Funds' Activities under Various Statutory Investment Restrictions* prepared by Christine Shaw, Chief Compliance Officer. This report details the activities undertaken by the Treasury regarding investment in companies doing business in Iran, Northern Ireland and Sudan, pursuant to sections 3-13g, 3-13h and 3-21e of the Connecticut General Statutes.

I look forward to your comments on this report.

Sincerely,

A handwritten signature in blue ink that reads "Denise".

Denise L. Nappier
State Treasurer

OFFICE OF THE STATE TREASURER
MEMORANDUM



TO: The Honorable Denise L. Nappier, State Treasurer

FROM: Christine Shaw, Chief Compliance Officer

DATE: June 6, 2017

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

Since 1984, Iran has been designated by the U.S. Department of State as a state sponsor of terrorism. Consequently, commercial activity in the country has been significantly limited.

As part of a multinational effort to curtail Iran's ability to develop nuclear weapons, in October of 2015 the Joint Comprehensive Plan of Action ("JCPOA" or "Iran nuclear deal") was formally adopted by the U.S. and five other countries.¹ In exchange for Iran's compliance with the terms of the deal, which included the dismantling of portions of its nuclear infrastructure, United Nations Security Council sanctions were lifted in January of 2016, as well as certain sanctions relating to the sale of oil and gas.

While there were early indications that meaningful commercial activity was returning to Iran given its compliance with the nuclear deal (a notable example was Boeing's \$16.6 billion deal with Iran for the sale of 80 airplanes), progress was short-lived because of Iran's testing of ballistic missiles, which resulted in U.S. Treasury imposing additional sanctions in January of 2017.

There remain sanctions on arms and missile-related trade, and overall, U.S. and international economic sanctions continue to discourage commercial activity in the country. According to the U.S. Government Accountability Office ("GAO"), the U.S. 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

Under the terms of the JCPOA, every ninety (90) days the State Department must advise Congress of the status of Iran's compliance. The last such notification was made on April 18, 2017, when the Trump administration certified Iran's compliance with a major caveat: that the administration was concerned about Iran's role as a "leading state sponsor of terror through many platforms and methods"³ and, consequently, would order an interagency review of the JCPOA led by the National Security Council "that will evaluate whether suspension of sanctions related to Iran pursuant to the JCPOA is vital to the national security interests of the United States."⁴ While the duration and outcome of this review are uncertain, President Trump has gone on record as describing the JCPOA as "the worst deal ever negotiated...."⁵

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

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

³ Letter of April 18, 2017 from Secretary of State Rex Tillerson to U.S. House Speaker Paul Ryan, <https://www.state.gov/secretary/remarks/2017/04/270315.htm>

⁴ *Id.*

⁵ See Reuters, Trump Election Puts Iran Nuclear Deal on Shaky Ground, November 9, 2016, <http://www.reuters.com/article/us-usa-election-trump-iran-idUSKBN13427E>

Connecticut's Investment Policy With Respect to Iran

Currently, there are five companies and nine subsidiaries that are restricted from investment by CRPTF managers. During Fiscal Year 2017, correspondence was sent to each company seeking updated information concerning their business activities in Iran. Based on the responses received, circumstances may warrant removal of these companies from prohibited status.

Otherwise, there were no additions or deletions from the list in Fiscal Year 2017. A copy of the *Iran Restricted Companies List* is attached at Appendix 1.

Going forward, the Treasury plans to enter into a contract for specialized research services to keep abreast of developments in the increasingly complex business environment in Iran. The Treasury has not, in the past, needed such a service because until recently, the GAO annually reported on commercial activities in Iran's energy and communications sectors. Those public reports provided the information used to develop Connecticut's restricted investments lists. GAO, however, issued its last report in January of 2016 because the law which authorized it was sun-setted.

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. Recently, the Treasury again wrote to these companies in an effort to encourage adoption of the MacBride Principles, and to date no response has been received. Therefore, there were no changes to the list during Fiscal Year 2017. A copy of the *MacBride Restricted Companies List* is attached at Appendix 2.

Sudan

Severe famine and civil war continue to ravage the Darfur region of Sudan, as well as South Sudan, and is impacting an estimated five million people. The area has been described as "a man-made disaster" with aid groups attributing the crisis to government soldiers.⁶ According to the World Bank, the primary factors driving poverty in Sudan are the ongoing civil war and a dependence on oil, "which has

⁶ See *South Sudan Ethnic Violence Hits New High As Civilians Flee*, May 31, 2017, The New York Times, <https://www.nytimes.com/aponline/2017/05/31/world/africa/ap-af-south-sudan-ethnic-killings.html>

resulted in the neglect of agriculture and livestock sectors as well as alternative sources of energy.”⁷

As last reported to the IAC on February 8, 2017, U.S. sanctions on the Government of Sudan and those doing business in that country were partially lifted by Executive Orders in January of 2017. Certain sanctions were suspended for a period of six months, and are slated to be permanently lifted in July of 2017, provided that Sudan continues to make satisfactory progress with ending the government's offensive military operations and improving humanitarian conditions.

Notwithstanding this Executive Order, a number of U.S. sanctions on Sudan remain in effect, including those related to commercial activity in the Darfur region of Sudan and South Sudan, as well as a ban on U.S. foreign assistance and an arms embargo. Importantly, Sudan continues to be designated a state sponsor of terrorism by the U.S. Department of State.

Connecticut's Investment Policy With Respect to Sudan

Currently, Connecticut restricts investment in ten (10) companies and eight (8) subsidiaries doing business in Sudan. During Fiscal Year 2017, based on information provided by EIRIS Conflict Risk Network, the Treasury's Sudan program vendor, three (3) companies were removed from restricted status and four publicly-traded subsidiaries of a restricted company were added to restricted status. In addition, correspondence was sent to each restricted company seeking updated information concerning their business activities in Sudan. Based on the responses received, circumstances may warrant removal of these companies from prohibited status. Lastly, three new companies were identified for engagement based on information provided by EIRIS.

A copy of the *Sudan Restricted Companies List* is attached at Appendix 3.

⁷ <http://www.worldbank.org/en/country/sudan/overview>, April 19, 2017.

Iran: Restricted Companies List¹

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

¹ Reflects removal of one company (including subsidiaries) from prohibited investment status, Sasol Ltd.

MacBride: Restricted Companies List¹

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.

¹ Reflects removal of one company (including subsidiaries) from prohibited investment status, Sasol Ltd.

Sudan: Restricted Companies List¹

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:

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.)

China Petroleum and Chemical Corp.

CNPC (Hong Kong)

Dongfeng Motor Corporation

Jiangxi Hongdu Aviation Industry Ltd.

Oil and Natural Gas Corp. (ONGC) and the following subsidiaries:

Mangalore Refinery and Petrochemicals Ltd. a.k.a. MRPL

ONGC Nile Ganga BV, Amsterdam

ONGC Videsh Limited a.k.a. OVL

ONGC Videsh Vankorneft

PetroChina Co. Ltd.

Petronas Capital Ltd.

Sinopec Shanghai Petrochemical Corp.

¹ Reflects **removal** of three (3) companies from prohibited investment status: AKM Industrial Co. Ltd.; Malaysia International Shipping Company a.k.a. MISC Bhd; and Sichuan Nitrocell Co. Ltd.

Reflects **additions** of four (4) subsidiaries of Oil and Natural Gas Corporation (ONGC): Mangalore Refinery and Petrochemicals Ltd. a.k.a. MRPL; ONGC Nile Ganga BV, Amsterdam; ONGC Videsh Limited a.k.a. OVL; and ONGC Videsh Vankorneft.