



DENISE L. NAPIER
TREASURER

State of Connecticut
Office of the Treasurer

JONATHAN A. HARRIS
DEPUTY TREASURER

May 4, 2011

Members of the Investment Advisory Council

Re: Report on the Connecticut Retirement Plans and Trust Funds' Sudan Initiative

Dear Fellow IAC Member:

Enclosed is a full report, prepared by Shelagh McClure Director of Compliance, regarding the activities undertaken by Treasury staff in fulfillment of the Sudan law. This report is provided to you pursuant to Conn. Gen. Stat §3-21e, which requires the State Treasurer to report to the IAC at least once per fiscal year on actions taken under the law.

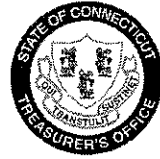
I look forward to your comments on this report.

Sincerely,

A handwritten signature in cursive script, appearing to read "Denise", is written over a faint circular line.

Denise L. Nappier
State Treasurer

OFFICE OF THE STATE TREASURER
MEMORANDUM



TO: HON. DENISE L. NAPPIER, TREASURER

FROM: SHELAGH P. MCCLURE, DIRECTOR OF COMPLIANCE

SUBJECT: SUDAN — COMPANY ENGAGEMENT

DATE: MAY 4, 2011

The purpose of this memo is to provide a report on the activities of the Treasurer's Office under Conn. Gen. Stat. §3-21e.

STATUS OF COMPANY ENGAGEMENT

During fiscal year 2011, our approach to engagement has been heavily influenced by the recently completed independence referendum in South Sudan. While the referendum was pending, we, along with other institutional investors who work with the Conflict Risk Network, focused our engagement on companies that could both assist and/or significantly hamper the independence voting in South Sudan—communications companies and companies in the oil and gas sector.

The rationale for the engagement of the communications companies was based upon past reports out of Darfur, where at the direction of the Government of Sudan, cell phone signals were interrupted prior to government attacks on villages, effectively preventing early warnings of the attacks. There was a concern that, should violence occur during the voting, or if efforts were undertaken by the government to interfere with the voting, interruption of cell phone service would prevent warnings, interfere with vote monitors and otherwise disrupt the integrity of the voting process. The two companies contacted by CRN, Zain Group and MTN Group, were not implicated in the past conduct. They are both publicly traded companies and have an approximately 80% share of the mobile market in Sudan. They were contacted and asked to provide specific assurances with regard to their service during the referendum.

Seventeen companies in the oil and gas sector were contacted due to the importance of oil to the Sudan economy. It supplies approximately 63% of the revenue to the Republic of Sudan, and 98% of the revenue to the Government of South Sudan. The oil fields are largely located in South Sudan, but all pipelines cross into the north to reach existing refineries and export terminals. During the civil war, significant violence involved the oil

fields, and the Government was accused of substantial abuses committed in the cause of control and security of the oil fields. Some companies were accused of complicity in the abuses. Although the Comprehensive Peace Agreement (CPA) that ended Sudan's civil war provided for a referendum on independence for South Sudan, the issue of how to divide Sudan's oil resources was not finalized in the CPA. Therefore, the oil and gas companies were contacted to inquire about their preparations in light of the referendum—what were their security arrangements should violence occur, and how were they preparing in the event that the South voted to become independent.

While only seven of seventeen oil companies responded to the engagement efforts, the good news is that the voting occurred with relatively little violence, was conducted fairly and the government of the Republic of Sudan has stated it accepts the overwhelming vote of the citizens of South Sudan, 99% of whom voted in favor of independence.

The independence referendum has had the effect of putting Darfur on the back burner in many ways. Currently, an increase in violence has been reported, and peace talks are stalled. U.S. economic sanctions are still in place, but the sanctions landscape is complicated by a number of factors. The Obama administration eased certain agricultural sanctions in advance of the referendum and has stated it is considering removing Sudan from the State Sponsors of Terror list. This would lift some, but not all, of the sanctions. In addition, Sudan's President, Omar al-Bashir, who has been indicted by the International Criminal Court for war crimes and genocide in Darfur, has stated that he does not intend to run for reelection in 2014. Finally, the U.S. recently appointed a new Special Envoy for Sudan, Ambassador Princeton Lyman. How these facts will affect Darfur in the coming months is uncertain.

In addition, despite the independence vote, there is a disputed region along the north-south border that did not participate in the referendum, Abyei, where there have been incidents of violence due to concerns of some residents with the outcome of the vote. This has significance because it is the location of major oil fields, and there is still considerable concern that violence there could erupt more broadly—and threatening the entire peace agreement. The instability in that region is certain to be an issue as the independence referendum is implemented and negotiations continue on the division of oil resources. Human rights groups monitoring the situation in Sudan, concerned that the Obama administration may be considering further easing of the sanctions as a reward for successful implementation of the referendum, are advocating that the sanctions should remain in place pending both full implementation of the referendum, including the resolution of the outstanding issues on oil revenues, and a peace agreement in Darfur.

NEW ENGAGEMENT

We receive quarterly reports from the Conflict Risk Network on companies with business activities in Sudan. Given the instability still existing in Sudan, and the ongoing violence and threat of violence, we sent letters to three companies identified as doing business in the weapons sector, **AviChina Industry and Technology Ltd.**, **Jiangxi Hongdu Aviation Industry Ltd.**, and **China North Industries Corporation**. It should be noted that we do not hold shares in any of these companies, so any action beyond engagement would be a

prohibition on investment. This approach is consistent with our earliest engagement activities, which involved both divestment and prohibition on investment in companies in which the CRPTF had no holdings. We have requested information on each company's business activities in Sudan, as well as any humanitarian efforts the company may have undertaken there. We have asked for a response within 90 days, in conformance with the federal Sudan Accountability and Divestment Act.

With respect to companies in the oil sector in Sudan, CRPTF managers are currently prohibited from investing in the companies with the largest stake in the Sudan oil business, due to previous divestment decisions. Since the ultimate outcome of the division of the oil resources is uncertain, we currently are refraining from engagement with other companies in the oil sector for the next three months, at which time we will reevaluate whether to pursue engagement. The independence vote is scheduled to become effective in July 2011, and it may be clearer at that time what steps are appropriate.

Conclusion

Since enactment of the Sudan law in 2006, the Treasurer's Office has engaged with upwards of 50 companies, either alone or in concert with other institutional investors. CRPTF has divested from 4 companies (with holdings valued at \$15.5 million at the time of divestment), and prohibits its managers from investing in 13 companies.

Please let me know if you have any questions.