



GOV. MSG. NO. 493

EXECUTIVE CHAMBERS

HONOLULU

March 3, 2008

LINDA LINGLE
GOVERNOR

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 a report to the Legislature that includes a list of 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 due within ninety days after the list is created. In this regard, I am enclosing the list of ERS direct holdings in scrutinized companies which was adopted at the Board of Trustees' meeting on January 14, 2008 meeting. You may 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. David Shimabukuro, Retirement System Administrator, at 586-1700.

Sincerely,

A handwritten signature in black ink, appearing to read "Linda Lingle".

LINDA LINGLE

Enclosure

EMPLOYEES' RETIREMENT SYSTEM
OF THE STATE OF HAWAII
DIRECT HOLDINGS IN SUDAN SCRUTINIZED COMPANIES*

Act 192, Session Laws of Hawaii 2007, expresses 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 were to include:

- 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.

* Reference Act 192, Section 2. Definitions of "Scrutinized Company."

The Act required the ERS to assemble a list of its direct holdings in scrutinized companies by the first Board meeting following the one hundred eighty day period and to update the list on a quarterly basis. In this regard, the Board of Trustees at its January 14, 2008 meeting, placed the following companies on its scrutinized list:

| | <u>Market Value</u> |
|---------------------------------|---------------------|
| Alstom | \$ 7,669,640 |
| China Petroleum & Chemical Corp | 6,872,068 |
| Electricity Generating PCL | <u>475,687</u> |
| | \$15,017,395 |

The ERS subsequently sent letters to the scrutinized companies to inform them of their scrutinized company status, offered the opportunity to clarify their Sudan-related activities, and encouraged 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.