

In 2012, the WSIB found 21 companies in our Public Equity portfolio that had been identified as having business operations in Sudan based on the Conflict Risk Network's "highest offender" list. The majority of the companies are energy, industrials, and utilities firms. The WSIB has almost \$266 million invested in these 21 companies, almost 74 percent of which is in passive assets between State Street Global Advisers (SSgA) and Black Rock.

The WSIB sent letters to the executives of the companies identified in the Public Equity portfolio. We received two responses to our request for details about the companies' operations in Sudan. An attorney for the Egypt Kuwait Holding Company responded that its business operations in Sudan are authorized under the Dept. of Treasury's Office of Foreign Assets Control (OFAC) and "do not contribute to the human rights abuses in Darfur."

The second response was from Caterpillar, Inc., The WSIB was contacted by the corporate securities counsel for Caterpillar, who explained that Caterpillar does not sell equipment directly to the government of Sudan, only to smaller companies and distributors. Based on our conversation and analysis of Caterpillar's assertions, we agreed to remove them from our list of companies on the Sudan watch list.

About 67 percent of our total Sudan exposure is in Caterpillar, the only U.S. company on the list. Of the remaining 33 percent of our exposure, 24 percent are state-controlled companies, the majority being companies controlled by the Chinese government.

This resolution is scheduled to sunset January 1, 2014.

WSIB Resolution on Sudan Investment

WHEREAS, the conflict in Darfur in western Sudan broke out in 2003 leaving 300,000 people dead and forcing another 2.7 million to flee their homes; and

WHEREAS, the federal government has imposed sanctions against the Government of Sudan, which are monitored through the U.S. Treasury Department's Office of Foreign Assets Control; and

WHEREAS, the current administration has called the situation in Darfur "not acceptable" and pledged U.S. support in working with the United Nations to "create a path for long-term peace and stability in Sudan;" and

WHEREAS, the Washington State Investment Board (WSIB) remains deeply concerned about the humanitarian crisis in Sudan and supports immediate and meaningful action to end the suffering; and

WHEREAS, the WSIB is entrusted with managing investments for public pension and other trust funds and is committed to doing so with the utmost integrity, prudence and skill, and undivided loyalty; and

WHEREAS, the WSIB's fiduciary responsibilities include watching for potential impacts on the valuations of its investments that may result from reputational risks to the companies in which the WSIB invests that may flow from companies doing business in Sudan;

BE IT RESOLVED that the WSIB adopt the following Resolution and principles as to how it will address public equity investments in non-U.S. companies which are doing direct business in Sudan:

1. The WSIB will make no investments in Sudan government bonds, notes, or similar bills of the nation of Sudan.
2. The WSIB will make no investment in companies conducting business activities in Sudan that are directly related to genocide, as expressly identified by the U.S. State Department, Treasury Department, or any other authorized agency of the U.S. Federal Government, such as, any company identified as subject to United States sanction by the Office of Foreign Assets Control.



3. The WSIB will carefully monitor and engage investments in non-U.S. companies which are involved in industries that have historically provided significant revenue or other support either directly or indirectly to the government of Sudan. The WSIB may seek alternative investments providing similar diversity and return expectations as appropriate with the WSIB's fiduciary responsibilities.
4. This Resolution does not require exit or divestment from any index or commingled public equity investment vehicle. For all actively managed public equity stock and fixed income investment vehicles which hold investments in non-U.S. companies doing direct business in Sudan, reasonable efforts will be made to actively engage these companies that may be in violation of the principles in the preceding sections 2 and 3 of this Resolution. Companies will be encouraged to comply with the principles in the preceding sections 2 and 3 of this Resolution.
5. The principles set forth in this Resolution are subject to the WSIB's fiduciary standards in state law, including the duty to "establish investment policies and procedures designed exclusively to maximize return at a prudent level of risk," RCW 43.33A.110, and the duty to act as a prudent investor found in RCW 43.33A.140. To avoid any doubt, this Resolution does not apply to real estate or private equity investments, and, except where explicitly provided, it also does not apply to fixed income investments.

Active Engagement Protocols:

1. Engagement provisions shall apply to all public security holdings in separate and commingled accounts. The inclusion of companies held in all public security accounts for engagement shall not be construed to suggest that the WSIB will seek investment restrictions in any portfolios.
2. A letter will be sent annually to all managers of investment vehicles which hold public equity securities in non-U.S. companies doing direct business in Sudan that meet the criteria enumerated in this Resolution. These investment managers will be asked to report to WSIB staff on securities in non-U.S. portfolios actively managed for the WSIB (as opposed to index or commingled accounts) which could reasonably be construed to be in conflict with the guidance in this Resolution.
3. WSIB staff will prepare and present an annual report on these efforts to the Board.
4. WSIB proxies will generally be voted in support of shareholder resolutions supporting transparency about company activities in Sudan that may be related to the sponsorship of genocide, as identified by the U.S. State Department, Treasury Department, or any other authorized agency of the U.S. Government, as well as requests for companies to play a role of constructive engagement in Sudan.
5. It is the judgment of the WSIB that this Resolution should remain in effect only insofar as it continues to be consistent with, and does not unduly interfere with, the foreign policy of the United States as determined by the federal government. Otherwise, this Resolution will sunset January 1, 2014, unless affirmatively readopted by the WSIB.