

US Wisconsin University moves to pull investments from Sudan

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Aug 17, 2006 (MADISON, Wis) — University of Wisconsin System leaders moved Thursday to pull their assets out of companies that do business with the government of Sudan.

UW could not invest in companies who work with the Sudanese government or are complicit in what the U.S. government and other countries consider genocide in the Darfur region in western Sudan under a resolution adopted by a committee of UW System regents on Thursday.

"This is an opportunity for us, on the grounds of humanitarianism, to do the right thing," said regent Charles Pruitt, chairman of the regents' business and finance committee.

The system would join 10 states and 20 universities who have passed similar policies to protest the conflict that has led to hundreds of thousands of deaths since 2003. The state's investment board is also looking into the matter.

The resolution, which would go into effect if approved by the full board on Friday, would apply to the \$370 million in trust fund investments managed by the UW System. The resolution would encourage private foundations that raise money for UW campuses to follow suit.

UW staff has identified 20 holdings worth \$1.2 million in its stock portfolio with possible ties to Sudan, although they are all held in mutual funds. The resolution calls for UW to send letters to the fund managers urging them to adopt a Sudan-free policy or to create a new mutual fund for UW's investments.

Simply pulling out of the investments would not be a wise decision, UW officials said.

UW investments include more than \$1 million in two Chinese oil companies, PetroChina and China Petroleum & Chemical. They do business with Sudan's Arab-led government, which is accused of unleashing Arab militias known as the Janjaweed to kill members of ethnic African tribes who rebel against the government.

In a related matter, the regents' committee is also looking into adopting a policy that would prohibit investments in tobacco companies. Regent Elizabeth Burmaster, the state's Department of Public Instruction superintendent, said she would research the matter further before offering a resolution at a later date. UW holds about \$1.4 million in such investments.

(AP/ST)

TARGETED DIVESTMENT: AT A GLANCE

GENOCIDE IS AN EXPENSIVE VENTURE

- The Sudanese government relies heavily on foreign investment to fund its military and the brutal militias seeking to eliminate the non-Arab population of Darfur. For example, it is estimated that 70-80% of oil revenue in Sudan, fueled by foreign direct investment, goes to the country's military.
- The Sudanese government has shown an **historic responsiveness to economic pressure**, while political pressure and diplomacy alone have largely failed to stop genocide in Darfur.



California Governor Arnold Schwarzenegger is joined by actors George Clooney and Don Cheadle and former Secretary of State George Shultz in adopting a targeted divestment from Sudan.

TARGETED DIVESTMENT: INNOVATIVE AND EFFECTIVE

- **Surgically Targets Worst Offending Companies:** Targeted divestment affects only companies that meet very stringent criteria; companies that (1) have a business relationship with the government of Sudan, (2) impart minimal benefit to the country's underprivileged, and (3) have demonstrated no substantial corporate governance policy regarding the Darfur situation
- **Engagement before Divestment:** Only when a "worst offending" company refuses to change its behavior after a period of shareholder engagement are pension funds required to divest from that company.
- **Protects Innocent Civilians:** Targeted divestment exempts certain companies, industries, and regions that provide benefit to disaffected civilians.
- **Protects Investment Returns:** Targeted divestment exempts certain investments where divestment can be convincingly proven to be infeasible, allowing the pension funds to maintain their prudent investor responsibilities.

For more information, visit www.SudanDivestment.org

OPTIONS AND RESOURCES FOR SUDAN DIVESTMENT: AT A GLANCE

The Sudan Divestment Task Force provides a list of the worst offending companies according to targeted criteria.

The Task Force's *List of Companies that Warrant Scrutiny* in Sudan includes firms considered to be “worst offenders” according to targeted divestment criteria – standards developed in consultation with foreign policy experts, asset managers, and third-party research firms. The list contains companies that have a business relationship with the government of Sudan, impart minimal benefit to the country's underprivileged, and have demonstrated no substantial corporate governance policy regarding the Darfur situation. This list and research is being utilized by hundreds of asset managers, third-party research firms, and client fiduciaries across the country and is continuously updated according to daily monitoring of company operations.

Contact info@sudandivestment.org for the *List of Companies that Warrant Scrutiny*.

Information on company operations in Sudan is also available from a number of third party research firms and fiduciaries.

To accommodate emerging demands for Sudan divestment, several third-party research firms have also introduced Sudan screening tools and products, which they offer for varying prices. While most of the initial products were tailored to much more inclusive “blanket” divestment approaches, many of these firms will assist in compliance with targeted divestment policies. In addition, several fiduciaries have produced their own research and rationale for choosing companies. The Task Force has taken this research into consideration when compiling its own company research. It should also be noted that many of these third-party research firms incorporate the Task Force's research into their products as well.

Sudan-free investment options from reputable asset managers are becoming increasingly available.

As dozens of institutions have restricted investments in Sudan, asset managers have become increasingly familiar and comfortable with creating customized ex-Sudan funds. While many of the initial offerings were based on a more expansive divestment model, several of these managers are now able to customize their options to meet targeted divestment requests. Currently available ex-Sudan options encompass both active and passive strategies offered in separately managed accounts, and passively managed commingled accounts. The Task Force recommends that fiduciaries encourage asset managers to provide ex-Sudan options in *all* asset classes.

Contact info@sudandivestment.org for a full list of available ex-Sudan options.

The Task Force's model of targeted divestment minimizes potential costs to divesting fiduciaries.

The Task Force's model of targeted divestment limits the scope of banned investments to roughly two

dozen companies, most of which do not represent core portfolio holdings for most Western fiduciaries. Additionally, targeted Sudan divestment should carry only minimal long-term opportunity costs. Companies operating in Sudan are similar in nature and size to companies that do not maintain operations in Sudan. Therefore, there should be no lack of financially-equivalent alternatives, nor will a Sudan divestment policy exclude a fiduciary from any entire industry sector. Anecdotal evidence also suggests that a targeted Sudan divestment policy will not harm a fiduciary's future ability to attract competitive bids by external money managers.

Holding on to Sudan-linked securities may actually prove costly in the long run.

As the national divestment campaign continues to gain momentum, Sudan-associated equity is especially susceptible to severe declines in value because offending companies already lack a robust market for their shares commensurate with their market capitalization. Separate from the genocide in Darfur, Sudan is also considered a state sponsor of terrorism by the US State Department. This designation has raised serious concerns among those who measure investment portfolio exposure to Global Security Risk (GSR), defined as the risk to share value and corporate reputation stemming from the intersection of a publicly-traded company's international business activities and security-related concerns. A number of companies have also begun to go so far as to list the Sudan divestment movement as a potential concern on their SEC filings.

The Task Force's model of targeted divestment is tailored to uphold prudent investor standards.

The targeted divestment model was developed to be completely consistent with prudent investor standards. In addition to limiting the companies targeted, targeted divestment limits the types of investments targeted to those that can be removed from the portfolio with relative ease. Additionally, the model allows fiduciaries to opt out of divesting from a particular company if they can unambiguously demonstrate that divesting from that company will impinge on their legal obligations under prudent investor standards.

For a full report on options and resources for targeted Sudan divestment and complete references, visit <http://www.sudandivestment.org/position.asp#options>.

EFFICACY OF TARGETED DIVESTMENT: AT A GLANCE

The government of Sudan has been historically responsive to economic pressure.

US sanctions declared in 1997 caused the Sudanese government to drop its support for terror and cooperate with the US on counter-terrorism. Also, a previously successful divestment campaign against Talisman Energy of Canada helped force the Sudanese government to negotiate with southern rebels—negotiations that ultimately resulted in the Comprehensive Peace Agreement of 2005. Unlike isolated countries that tend to shrug off sanctions, the Sudanese government is desperately trying to attract foreign investment. Threats to these efforts are taken very seriously by Sudan.

Divestment makes genocide costly.

Under current political and diplomatic pressure the Sudanese government incurs virtually no cost for continuing its genocide in Darfur, beyond further damage to its image in the West. Divestment, however, forces the Sudanese government to pay a price for its refusal to restore peace and security to Darfur.

Widespread divestment causes share price depreciation.

While the effect of divestment on offending companies' share prices thus far remains unclear, the divestment movement is spreading with enormous speed, both in the US and internationally. It is only a matter of time before enough assets have been divested to actually make a substantial impact on share prices. There is precedent for share price depreciation vis-à-vis Sudan divestment—Talisman Energy's share price was estimated to have dropped roughly a third on account of the divestment campaign against it.

Foreign direct investment enables the Sudanese government to carry out genocide in Darfur.

Recent increases in foreign direct investment in Sudan, particularly in the oil industry, have disproportionately benefited Sudan's military and elite. Since oil was first extracted in 1999, Sudan's military budget has more than doubled. It is estimated that 70-80% of oil revenue is now funneled into Sudan's military.

The Sudanese government is paying attention to the divestment movement.

The Sudanese embassy authored a press release and an op-ed condemning divestment, and the Sudanese ambassador actually spoke by phone with activists in an attempt to discourage divestment. The Sudanese government even took out a six-page ad in the New York Times this past March extolling Sudan as a peaceful country worthy of foreign direct investment.

Companies in Sudan are already responding to shareholder pressure.

Total, a Global Fortune 500 French oil firm that owns (but does not currently drill on) oil blocks in Sudan has responded to shareholder pressure and the specter of divestment by hiring a non-profit to evaluate

their business activities in Sudan. ABB, a Global Fortune 500 Swiss company specializing in electrical engineering that has operations in Sudan, has been very responsive to shareholder engagement, including direct dialogue with the Sudan Divestment Task Force. Some American firms exempted from US sanctions, including Xerox and 3M, have decided to curtail all non-humanitarian operations in the country. Companies have also begun to go so far as to list the divestment movement as a potential concern on SEC filings.

Sudan divestment keeps the media focused on Darfur.

Divestment continues to keep Darfur in the public eye and sends a clear message to both the Federal government and the international community that the crisis warrants attention. Coverage for divestment has appeared in the New York Times, Wall Street Journal, Washington Post, International Herald Tribune, LA Times, BBC, Financial Times, NPR, Christian Science Monitor, and many other media outlets. See www.sudandivestment.org/inthenews.asp for a representative listing.

For a full report on the efficacy of targeted divestment and complete references, visit www.sudandivestment.org/position.asp.