



SFERS

San Francisco Employees' Retirement System

City and County of San Francisco
Employees' Retirement System

RETIREMENT BOARD CALENDAR SHEET

Retirement Board Meeting of October 14, 2020

To: Retirement Board

Through: Jay Huish 
Executive Director

William J. Coaker Jr., CFA, MBA
Chief Investment Officer

Kurt Braitberg, CFA, CAIA
Managing Director, Public Markets

From: Andrew Collins
Director of ESG Investing

Adrienne von Schulthess
Security Analyst, ESG Investing

Date: October 14, 2020

Agenda Item:

Targeted Divestment in Sudan: Level III of SFERS ESG Investment Policy

Background:

In November 2006, the Retirement Board (the "Board") approved the implementation of Level III of SFERS' Social Investment Procedures with respect to divestment from Sudan. Each year, utilizing research from MSCI ESG Research LLC ("MSCI ESG") and other sources, investment staff ("Staff") reviews the business activities of companies in Sudan and prepares a set of recommendations for the Board's review and consideration. In addition, Staff regularly reviews the SFERS Criteria for Divestment regarding targeting divestment in Sudan. These criteria were last updated at the February 12, 2020 Board meeting.

This report describes recommended updates to the list of companies restricted due to their activities in Sudan, details the performance impact of not owning these companies in the SFERS' investment portfolio over the past year and since the inception of the restriction, and provides an update on political and humanitarian developments in Sudan over the past 12 months.

Recommendation:

Staff recommends that the Board reaffirm its intent to remain divested from certain companies operating in Sudan based on criteria approved at the February 12, 2020 Board meeting, and adopt the list of restricted companies identified in Appendix C.

If the Board agrees then the following motion is recommended:

Move that the San Francisco Employees' Retirement System maintain its policy with respect to divestment from certain companies operating in Sudan and approve the list of restricted companies as outlined in Appendix C of Staff's memorandum

Attachment:

Staff Memorandum



To: Retirement Board

Through: Jay Huish 
Executive Director

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In addition, Staff regularly reviews the SFERS Criteria for Divestment regarding targeting divestment in Sudan, which was first adopted in November 2006.

At the February 12, 2020 Board meeting the Board approved updates to the criteria SFERS uses to determine whether business activity in Sudan warrants investment restriction. This update recognized that US sanctions against Sudan had largely been lifted and that the country is on a pathway towards a democratically elected government. At the same time, the update recognized that political stability in the country is fragile and is an evolving situation. Therefore, the criteria continue to restrict investment in companies that supply military equipment or equipment that could be used for military purposes, as well as those that have demonstrated complicity with the genocide in Sudan. The criteria, however, do not restrict investment in all companies that engage in business activities in Sudan. For companies identified to have other business activities in Sudan, Staff conducts due diligence on the companies' specific activities, compliance and governance practices, and risk-mitigation strategies. If Staff can gain comfort that these activities present relatively low environmental, social, and governance risk and the activities may positively contribute to economic development in Sudan then Staff provides recommendations to the Board that the company be exempt from investment restriction.

This report provides an update on recent developments in Sudan, an analysis of companies identified to have business activities in Sudan against SFERS' criteria for investment restriction, and recommendation to the Board of a list of companies to adopt for investment restriction.

Summary of Developments in Recent Months

In 2017, the comprehensive embargo and sanctions from the US government on the government of Sudan were largely lifted, although certain restrictions remain in place. In January 2017, President Obama issued Executive Order 13761, "Recognizing Positive Actions by the Government of Sudan and Providing for the Revocation of Certain Sudan-Related Sanctions".¹ This was subsequently amended by President Trump's Executive Order 13804 to be effective October 12, 2017.

In April 2019, President Bashir, wanted for arrest by the International Criminal Court (ICC) for charges of genocide, war crimes and crimes against humanity committed in Darfur, was overthrown in a military coup. Subsequently, the military announced a two-year transition period.

On August 4, 2019 Sudan's main opposition coalition and the (post-coup) Transitional Military Council agreed to form a Sovereignty Council for an interim 39-month period. The Sovereignty Council consists of six civilians and five military personnel. A military general leads the Sovereignty Council for the first 21 months, with the intention being this position rotates to a civilian thereafter.

At the time of writing the US federal government continues to maintain Executive Order 13400² and the US State Department continues to consider Sudan a "State Sponsor of Terrorism" (or "SST"). In August 2020, however, Secretary of State Mike Pompeo provided Sudan with a concrete opportunity to lift this terrorism designation through a \$330 million settlement for the 1998 Al Qaeda truck bombings of the US embassies in Kenya and Tanzania. This proposal has reportedly been positively received by the transitional government.³ On September 24, the New York Times reported that the Trump Administration is planning on removing Sudan from the SST list in the next couple weeks. This move leaves the settlement in question, with Sudan promising to hold compensation in escrow until Congress provides legal immunity, which is unlikely to take place, if at all, before the November elections.⁴

Staff has reviewed multiple international media, multi-national organizations, and US government sources for analysis on Sudan. Staff has previously met with International Crisis Group and Human Rights Watch, two highly respected non-profit groups, to better understand the evolving on-the-ground situation. While the non-profits had significant ongoing concerns, they also communicated some optimism. Staff was left with the impression that progress continues and the risk of deliberate, systematized extreme violence by the government against civilians (such as occurred in the Darfur genocide, the Khartoum massacre and other acts) has significantly diminished compared to prior to the formation of the Sovereignty Council and appointment of mainly civilian government ministers. However, the situation is far from ideal and progress towards democracy is fragile.

Positive Developments

¹ <https://www.treasury.gov/resource-center/sanctions/Programs/Documents/13761.pdf>

² <https://home.treasury.gov/policy-issues/financial-sanctions/sanctions-programs-and-country-information/sudan-and-darfur-sanctions>

³ <https://www.csmonitor.com/World/Middle-East/2020/0902/US-offers-a-way-off-terrorism-list.-Is-price-right-for-Sudanese>

⁴ <https://www.nytimes.com/2020/09/24/us/politics/us-sudan-terrorism.html>

As outlined in previous board reports, the comprehensive embargo and sanctions from the US government on the government of Sudan have largely been lifted, although certain restrictions remain in place.⁵ The recent progress towards removing the SST designation, follows a \$70 million settlement by the Sudanese government in April for the victims of Al Qaeda's USS Cole attack in 2000.⁶

The blended civilian/military Sovereignty Council is seen as a positive (on balance) and has survived its year in power. Continued progress on reforms was acknowledged in June when the World Bank along with 40 countries including the US pledged nearly \$2 billion in loans/grants to the government.⁷ The Sovereignty Council has appointed ministers in the transitional government, including Prime Minister, Abdalla Hamdok, a civilian and former World Bank economist.⁸ In July 2020, Sudan replaced military appointed governors with 18 civilian governors, including two women, demonstrating continued progress towards reform.⁹ The Sovereignty Council also passed a series of legal reforms, including a ban on torture and forced confessions, moving the country towards fulfillment of the constitutional declaration's guarantees of basic rights and freedoms.¹⁰

In August 2020, the government and a coalition of rebel forces reached a peace deal in Darfur and the south of the country. Two groups did not sign the agreement, Sudan People's Liberation Movement-North (SPLM-N) and a faction of the Sudan Liberation Army (SLA) led by Abdel Wahed el-Nur.¹¹ While these holdouts are a risk, the two groups are expected to fall in line as the peace deal moves forward.¹² As part of this deal rebel forces will be integrated into the transitional government and national army. As the New York Times reported, "While observers cautioned that Monday's deal needed to be followed with concrete reforms, it was widely viewed as a critical first step to a more enduring peace."¹³

Sudan has also agreed to cooperate with the International Criminal Court (ICC) in the Hague, a key step in moving past the conflict for citizens. This work will include a Truth and Reconciliation Commission, memorial sites, and access for ICC prosecutors and investigators to victims, witnesses, and investigation sites.¹⁴ Significant progress over the last year includes the trial of Former President Omar al-Bashir. The trial, which is seen by observers as a crucial step towards reconciliation, has been delayed but is expected in September.¹⁵

Furthermore, relations between Sudan and South Sudan over crude oil production and transport have improved. As noted by South Sudan's Undersecretary of the Ministry of Petroleum, Awow Daniel Chuang, "that the relationship between the two countries has improved since the change of government in South Sudan and the country pays the fees that are set out in the agreement with Sudan."¹⁶

In late December 2019, the Council of Ministers and the Sovereignty Council passed the 2020 budget with increases in education and healthcare.¹⁷ In September 2020, the International Monetary Fund (IMF) approved Sudan's

⁵ <https://www.state.gov/u-s-relations-with-sudan/>

⁶ <https://www.csmonitor.com/World/Middle-East/2020/0902/US-offers-a-way-off-terrorism-list.-Is-price-right-for-Sudanese>

⁷ <https://www.csmonitor.com/Commentary/the-monitors-view/2020/0630/When-the-war-on-terror-isn-t-a-war>

⁸ <https://www.dw.com/en/sudan-names-first-government-since-al-bashir-ouster/a-50320525>

⁹ <https://www.aljazeera.com/news/2020/07/sudans-transition-civilian-governors-challenges-200728105404834.html>

¹⁰ <https://www.hrw.org/news/2020/07/16/sudans-law-reforms-positive-first-step>

¹¹ <https://www.reuters.com/article/us-sudan-darfur/sudan-signs-peace-deal-with-key-rebel-groups-some-hold-out-idUSKBN25R14Y>

¹² <https://www.bbc.com/news/world-africa-54071959>

¹³ <https://www.nytimes.com/2020/08/31/world/africa/sudan-peace-agreement-darfur.html>

¹⁴ <https://allafrica.com/stories/202009030157.html>

¹⁵ <https://www.africanews.com/2020/09/02/sudan-bashir-s-trial-adjourned-to-september/>

¹⁶ <https://www.africaoilandpower.com/2020/08/10/south-sudan-hopes-to-complete-tfa-payments-to-south-sudan-by-2021/>

¹⁷ <https://www.reuters.com/article/us-sudan-economy/sudan-passes-2020-budget-with-anticipated-deficit-of-1-62-billion-idUSKBN1YX0L3>

economic reform program and will monitor the program over the next year. This action opens up the potential for future debt relief, which the AP reports, is “seen as the country’s gateway to economic recovery.”¹⁸

Remaining Issues and Areas of Concern

Executive Order 13400 issued by President George W. Bush remains in place. E.O. 13400 places sanctions on certain individuals and entities involved in providing military equipment and services to the government of Sudan and other groups.¹⁹ In August 2020, the US State Department issued visa restrictions on individuals undermining the work of civilian ministers and stalling implementation of provisions of the Constitutional Declaration or other activities that weaken the authority of the civilian-led transitional government.²⁰

While progress has been made over the last year, as noted above, Sudan’s economic situation is a source of increasing concern. In August 2020, United Nations (UN) officials in Sudan appealed for \$1.6 billion to assist the country in dealing with floods that have impacted 17 of Sudan’s 18 states.²¹ These floods comes at a time when the country was already experiencing 80% inflation, food prices that have doubled in 2020, and difficulty responding to the COVID-19 pandemic.²²

In August 2020, citizens led protests at the one-year mark of the transitional government calling for faster reforms.²³ The government has fallen behind with respect to transition plans on items including the creation a legislative body.²⁴ Protesters also expressed concerns that the military maintained too much influence on the civilian leadership, as reported by Al Jazeera.²⁵ These protests were dispersed with tear gas.

A Foreign Policy article by Rebecca Hamilton on December 6, 2019 outlines the multiple risks that continue to be relevant to a successful transition:

“A cabinet of technocrats runs the day-to-day bureaucratic administration, but the head of state is an 11-person Sovereignty Council, composed of five military members and six civilians. Its leader is Lt. Gen. Abdel Fattah al-Burhan; his deputy is the RSF militia leader Mohamed Hamdan Dagalo, known as Hemeti, who is notorious for his role in the latter stages of atrocities in Darfur. In the final 18 months before the 2022 elections, the Sovereignty Council will be led by one of its civilian members. The arrangement is a second-best option, but it is what the current balance of power will bear.”²⁶

Existing Criteria for Divestment

SFERS’ existing Criteria for Divestment, as approved in February 12, 2020, are as follows:

The San Francisco Employees Retirement System (SFERS) shall not invest in public securities of companies that conduct business in Sudan if the company either:

¹⁸ <https://apnews.com/article/virus-outbreak-sudan-africa-omar-al-bashir-united-nations-7101880a243a22f35b33efc6b37a5ab1>

¹⁹ <https://www.treasury.gov/resource-center/sanctions/Documents/13400.pdf>

²⁰ <https://allafrica.com/stories/202008140419.html>

²¹ <https://www.voanews.com/africa/south-sudan-focus/un-makes-16-billion-appeal-sudan>

²² <https://www.csmonitor.com/World/Middle-East/2020/0902/US-offers-a-way-off-terrorism-list.-Is-price-right-for-Sudanese>

²³ <https://www.aljazeera.com/news/2020/08/sudanese-protest-year-power-sharing-deal-army-200817163531098.html>

²⁴ <https://www.startribune.com/sudanese-demand-reforms-a-year-after-deal-with-generals/572137992/>

²⁵ <https://www.aljazeera.com/news/2020/08/sudanese-protest-year-power-sharing-deal-army-200817163531098.html>

²⁶ <https://foreignpolicy.com/2019/12/06/sudan-democracy-enemies-everywhere-bashir/>

- A. *Supplies military equipment in the Sudan.*
- B. *Provides equipment or resources that may be used for military purposes, such as radar systems or military vehicles, without safeguards to prevent the equipment's use for military purposes.*
- C. *Engages in oil-related activities, mineral extraction, and/or power generation transmission or distribution in Sudan without governance and controls in place to mitigate environmental, social, and governance risks.*
- D. *Engages in business with the government of Sudan without governance and controls in place to mitigate environmental, social, and governance risks.*
- E. *Has demonstrated complicity in the Darfur genocide.*

As approved by the Board at the October 2019 meeting Staff will continue to evaluate the transition of power in Sudan in the coming years. This review will focus on the following events as key for monitoring the transition progress:

1. The removal of the Sponsor of State Terrorism designation by the US government.
2. The 21-month Sovereignty Council leadership change to a civilian.
3. The 2022 elections and whether military figures in the Sovereignty Council step aside.

If all three of the above events proceed as expected, Staff may make a recommendation to the Board to lift investment restrictions for companies operating in Sudan.

Scrutinized Companies:

Staff scrutinized a set of companies indicated to have business activities in Sudan against the criteria for investment restriction.

The companies scrutinized with respect to the investment restrictions include: 1) 39 companies and their subsidiaries determined to have business activities in Sudan, 2) the existing restricted list of companies established in February 2020.

Companies with Business Activities in Sudan

The purpose of this section is to provide the Board with additional information on the 39 companies and their subsidiaries which were identified by MSCI ESG Research for having business activities in Sudan.

Staff notes that none of the 39 companies are thought to have military-related business activities or have demonstrated complicity in the Darfur genocide. However, Staff notes that each company does engage in business activity that requires staff review activities in detail to understand if the correct governance and controls are in place to mitigate environmental, social, and governance risks.

The following table summarizes the analysis of each company and its business activities against the SFERS criteria, and it presents a recommendation of whether to restrict investment in the company. Appendix D provides a more detailed description and analysis of each company's business activities and environmental, social, and governance controls.

Based on this review, Staff recommends adding three companies, Offtec Holding Company, Harbin Electric Company Limited, and Petroliam Nasional Berhad (aka Petronas) along with its subsidiaries to the list of restricted companies. As of 6/30/20, SFERS has no direct exposure to Offtec Holding Company, Harbin Electric Company Limited, or Petronas and its subsidiaries.

Table 2: Summary of Staff Views on Individual Additional Companies Reviewed²⁷

Company	Brief Comment	MSCI ESG Score	MSCI Corruption and Instability Score (/10)	Evidence of Governance and Controls	Recommendation
Al Baraka Banking Group B.S.C.	Activities in the banking industry are medium risk. Staff found no evidence of controversy related to operations with Sudan's government and the company emphasizes its focus on community impact.	-	-	Yes (Limited)	Do Not Restrict
Atlas Copco	Activities in construction equipment and parts are considered by Staff to pose low ESG risk and potentially provide benefit to the people of Sudan. Strong ESG governance policies are in place.	AA	8.1	Yes	Do Not Restrict
Bank of Beirut S.A.L	Staff see limited risk due the limited nature of the banking connections to Sudan. Strong ESG governance policies are in place.	-	-	Yes	Do Not Restrict
Bharat Heavy Electricals Limited	Activities in the power equipment sector are considered by Staff to pose low ESG risk. The company demonstrates a commitment to improving ESG governance and maintains minimal operations in Sudan.	B	4.7	Yes	Do Not Restrict
BYD Company Limited	Activities in the passenger vehicle sector are considered by Staff to pose low ESG risk and potentially provide benefit to the people of Sudan.	A	-	Yes (Limited)	Do Not Restrict
China Communications Construction Company Limited	Activities in the infrastructure sector are considered by Staff to pose low ESG risk and potentially provide benefit to the people of Sudan.	CCC	.3	Yes (Limited)	Do Not Restrict
China National Petroleum Corporation	Direct ties to Sudan's oil and gas industry. Company highlights an upgrade to compliance manual and training programs in 2018 and continued progress in 2019.	B	1.6	Yes	Do Not Restrict

²⁷ Disclaimer: Certain information ©2020 MSCI ESG Research LLC. Reproduced by permission, no further redistribution. Although SFERS' information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness of any data herein. None of the ESG Parties makes any express or implied warranties of any kind, and the ESG Parties hereby expressly disclaim all warranties of merchantability and fitness for a particular purpose, with respect to any data herein. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein. Further, without limiting any of the foregoing, in no event shall any of the ESG Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

China Petrochemical Corporation	Direct ties to Sudan's oil and gas industry. Company has risk prevention mechanisms. Staff will continue to monitor the company.	-	-	Yes (Limited)	Do Not Restrict
China Three Gorges Corporation	Activities in the clean energy sector is considered by Staff to pose low ESG risk and potentially provide benefit to the people of Sudan. Staff will continue to monitor the company.	B	1.6	Yes (Limited)	Do Not Restrict
CRRC Corporation	Activities in the automotive industry are considered by Staff to pose low ESG risk and potentially provide benefit to the people of Sudan.	B	0.1	Yes (Limited)	Do Not Restrict
El Sewedy Electric Co SAE	Activities in the electrical power and renewables sectors are considered by Staff to pose low ESG risk and potentially provide benefit to the people of Sudan.	BB	4.4	Yes	Do Not Restrict
General Electric	GE has committed to divesting from its most significant involvement in Sudan that holds ESG risk, namely Baker Hughes, which operates in extractive sectors (oil, gold). Staff will continue monitoring the company.	A	5.5	Yes	Do Not Restrict
Harbin Electric Company Limited	Activities in the energy infrastructure sector are considered by Staff to pose low ESG risk. However, the company fails to provide basic ESG assurances.	-	-	No	Restrict
Hyundai Motor Company	Activities in the passenger vehicle sector are considered by Staff to pose low ESG risk and potentially provide benefit to the people of Sudan.	B	Business Ethics and Fraud Score 3.7	Yes	Do Not Restrict
International Container Terminal Services, Inc.	Activities in the port and container services sector are considered by Staff to pose medium ESG risk, however they both have the potential to provide benefit to the people of Sudan and the company has strong ESG governance controls in place .	B	2.9	Yes	Do Not Restrict
Kirloskar Brothers Limited	While there was limited information on specific Sudan activities, operations in the engineering services and pumping equipment sector are considered by Staff to pose low-to-medium ESG risk, and the potential to provide benefit to the people of Sudan. The company has ESG governance controls in place	-	-	Yes	Do Not Restrict
Managem S.A.	Potentially controversial and high-risk gold mining operations. Publicly disclosed evidence of governance around corruption and bribery risks and human rights includes the CSR Charter.	-	-	Yes	Do Not Restrict
Mena for Touristic and Real Estate	Activities in the residential real estate sector are considered by Staff to pose low	-	-	Yes (Limited)	Do Not Restrict

Investment Co SAE	ESG risk and potentially provide benefit to the people of Sudan.				
Mitsubishi UFJ Financial Group, Inc.	Activities in the telecommunications sector are considered by Staff to pose low ESG risk and potentially provide benefit to the people of Sudan.	BBB	Financial System Instability 1	Yes (Limited)	Do Not Restrict
Nissan Motor Co.	Activities in the passenger vehicle sector are considered by Staff to pose low ESG risk and potentially provide benefit to the people of Sudan.	CCC	Business Ethics and Fraud Score 2.5	Yes	Do Not Restrict
Nokia	Activities in the network and telecommunications sector are considered by Staff to pose low ESG risk and potentially provide benefit to the people of Sudan.	AA	Controversial Sourcing 8.4	Yes	Do Not Restrict
Offtec Holding Group Company (P.L.C.)	While there is no evidence of negative actions by the company in Sudan, the company fails to provide basic ESG assurances.	-	-	No	Restrict
Oil India Limited	Concerning deal historically, considering timing. However, Staff is less concerned about the remaining 10% stake going forward. Petroleum exports allows the new government to earn revenues and provide increased social expenditure, as has been indicated by the new finance minister.	B	3.3	Yes	Do Not Restrict
Orange SA	Activities in the data and telecommunications sector are considered by Staff to pose low ESG risk and potentially provide benefit to the people of Sudan.	AAA	7.7	Yes	Do Not Restrict
Orca Gold Inc	Potentially controversial and high-risk gold mining operations, with corruption risk partly mitigated by the presence of US and Canadian laws and the company's code and policy. Orca Gold's project, if approved, would involve total capital expenditure of almost \$500 million, which could provide a substantial boost to the local economy (though not all spent locally). ²⁸	-	-	Yes	Do Not Restrict
Petroliam Nasional Berhad (PETRONAS)	The company has substantial oil operations in Sudan. Staff concerns arise from its 40% stake in a consortium that directly financed militias during the South Sudan civil war, indicating weak application of ESG risk oversight	B	3	Yes	Restrict
Power Construction Corporation of China	Activities in the infrastructure sector are considered by Staff to pose low ESG risk and potentially provide benefit to the people of Sudan. Staff will continue to	B	1.2	Yes (Limited)	Do not Restrict

²⁸ <https://www.juniorminingnetwork.com/junior-miner-news/press-releases/499-tsx-venture/org/84037-orca-gold-revised-feasibility-study-demonstrates-improved-operating-costs-and-npv-at-its-block-14-gold-project-in-the-republic-of-the-sudan.html>

(PowerChina) Qalaa Holdings S.A.E.	monitor this company. While the company operates in the mining sector which staff sees as higher in ESG risk, the only mine in Sudan is not currently operational. Staff will continue to monitor this company.	-	-	Yes	Do not Restrict
Ramco Systems Limited	Activities in the enterprise software sector are considered by Staff to pose low ESG risk.	-	-	Yes (Limited)	Do not Restrict
Reliance Communications	While the company filed for bankruptcy in 2019, the company had a low risk involvement in Sudan. Staff will continue to monitor the company and any asset sales.	-	-	No	Do not Restrict
Saudi Airlines Catering Company	Activities in the catering sector are considered by Staff to pose low ESG risk and potentially provide benefit to the people of Sudan.	B	3.9	Yes (Limited)	Do not restrict
Saudi Telecom Company	Activities in the telecommunications sector are considered by Staff to pose low ESG risk and potentially provide benefit to the people of Sudan.	CCC	0	Yes	Do not restrict
Schneider Electric SE	Activities in the electric power sector are considered by Staff to pose low ESG risk and potentially provide benefit to the people of Sudan.	AAA	9.3	Yes	Do not restrict
Seera Group Holding	While there is a lack of governance controls, activities in the tourism and hospitality sector are considered by Staff to pose low ESG risk and potentially provide benefit to the people of Sudan.	AA	-	No	Do not restrict
Shanghai Pharmaceuticals Holding Co., Ltd.	Activities in the area of antimalarial medicine are considered by Staff to pose low ESG risk and potentially provide benefit to the people of Sudan.	A	1	No	Do not restrict
Siemens AG	Activities in the power generation sector are considered by Staff to pose low ESG risk and potentially provide benefit to the people of Sudan.	AAA	7.9	Yes	Do not restrict
Syngenta AG	Activities in the agricultural sector are considered by Staff to pose low ESG risk and potentially provide benefit to the people of Sudan.	-	-	Yes	Do not Restrict
Telecom Italia	Activities in the telecommunications sector are considered by Staff to pose low ESG risk and potentially provide benefit to the people of Sudan.	BB	5.1	Yes	Do not restrict
Volkswagen AG	Activities are considered by Staff to pose low ESG risk. VW's involvement in Sudan is higher than most companies but shows low connections to government entities. Given recent ethics scandals at company along with earlier concerning connections of MAN SE and Giad to the conflict, Staff will monitor closely.	CCC	Business Ethics and Fraud 0	Yes	Do no restrict

Analysis of Current Restricted List Companies

SFERS currently restricts investment in four companies and their subsidiaries due to the nature of their business activities in Sudan. Staff reviewed each company's business activities to determine if any changes to the investment restriction recommendation were warranted.

Table 1: Companies on the February 2020 Sudan Restricted List

Company	Subsidiaries	Flag
AviChina Industry & Technology Company Limited	n/a	A, B or E
Jiangxi Hongdu Aviation Industry Co., Ltd.	n/a	C or D only
Sudatel Telecom Group Ltd	n/a	A, B or E
The Energy House Holding Company KSCP	Al-Enmaa Real Estate Company KSCP KUWAIT FINANCE HOUSE K.S.C.P KUYEY TURK KATILIM BANKASI ANONIM SIRKETI	C or D only

AviChina Industry & Technology Company Limited

AviChina Industry & Technology Company Limited (AviChina) is listed on the Hong Kong Stock Exchange with 56% controlled by Aviation Industry Corporation of China (AVIC), a state-owned entity of China, and 5% owned by Airbus Group.

MSCI's reason for flagging AviChina was due to a transactions by its parent entity (AVIC) in supplying military aircraft to Sudan. The Stockholm International Peace Research Institute (SIPRI) reported that six FTC-2000 jets were delivered to Sudan in 2019. These aircraft were manufactured by Guizhou Aircraft Industry Corporation, another subsidiary of AVIC.

The aircraft that are manufactured by AviChina are for civilian and military use, including helicopters, trainer jets and general aircraft. Sudan is not specifically mentioned in AviChina's 2018 annual report or 2019 interim report, and a breakdown of sales by country is not provided. However, the 2018 report does mention alignment with the Belt and Road initiative (of which Sudan is part).

AviChina's 2018 annual report states that all AviChina subsidiaries have anti-corruption systems and that during 2018 the company increased education on the topic and established of reporting programs.

Jiangxi Hongdu Aviation Industry Co., Ltd.

According to Reuters, Jiangxi Hongdu Aviation Industry is listed on the Shanghai Stock Exchange and has a market capitalization of CNY 9.2 billion (on December 27, 2019). According to Bloomberg, the company "manufactures aircraft products. The Company produces training planes, agricultural planes, basic training planes, and other equipment. Jiangxi Hongdu Aviation Industry markets its products to Asia, Africa, Americas, and other countries and regions."

The company does not publish investor information on its website. It appears that Jiangxi Hongdu Aviation Industry is at least partly owned by Aviation Industry Corporation of China (also the owner of AviChina and Guizhou Aviation Aircraft Co Ltd).²⁹

As of December 2019, Jiangxi Hongdu Aviation Industry is no longer flagged by MSCI for ties to Sudan. The company is also not covered by MSCI ESG Research.

The Energy House Holding Company KSCP (EHH)

EHH is an investment company focusing on energy and power, and associated equipment and services, in the Middle East and North Africa (as well as globally). It is listed on the Kuwait Stock Exchange. EHH is 96% owned Development Enterprises Holding Co. K.S.C.C, which in turn is owned by Kuwait Finance House, an Islamic bank listed in Kuwait.

Limited information on Sudan operations is available in EHH's annual report, other than that at least one subsidiary has operating revenue in Sudan, and that the company was financially impacted by significant depreciation of the Sudanese Pound in 2018.

MSCI reports that, as of January 2019, EHH's activities in Sudan included a subsidiary, Higlign Petroleum Services, and Investment Company (HPSIC) and a 50:50 joint venture, Al Dindir Petroleum International Company. EHH's website indicates ongoing 64% ownership of HPSIC but has no mention of the joint venture. HPSIC is involved Sudan in engineering, procurement and construction for the oil and gas industry and public works such as roads.

Staff has not been able to find evidence of corruption, bribery, or human rights policies.

Sudatel Telecom Group Ltd

Sudatel is a Sudanese telecommunications company listed on the Khartoum and Abu Dhabi stock exchanges.

MSCI states: *"According to a 2006 report of the Genocide Intervention Network (formerly Sudan Divestment Task Force), Sudatel was considered to be complicit in the genocide occurring in Darfur due to the company's collaboration with the Sudanese government and the Janjaweed militia. Former United States Marine Brian Steidle, who worked in Darfur for the African Union, has published information alleging that Sudatel disabled mobile phone networks before Janjaweed attacks in Darfur, essentially blocking any type of effective warning or communications. This type of behavior is considered complicit according to Sudan divestment guidelines."*

Sudatel is not covered by MSCI ESG Research. Sudatel is a participant to the UN Global Compact and submits an annual Communication on Progress. Staff has not reviewed the content of this publicly available document since it is not available in English.

²⁹ <https://www.africanaerospace.aero/sudan-s-chinese-jet-milestone.html>

Summary

Table 4: Summary of Staff Views on Restricted Companies Reviewed³⁰

Company	Brief Comment	MSCI ESG Score	MSCI Corruption and Instability Score (/10)	Evidence of Governance and Controls	Recommendation
AviChina Industry & Technology Company Limited	Tied to AVIC, which was involved in 2018 sale of military equipment to Sudan.	CCC	0.0	Yes (weak)	Maintain restriction
Jiangxi Hongdu Aviation Industry Co., Ltd.	Tied to AVIC, which was involved in 2018 sale of military equipment to Sudan	-	-	No	
The Energy House Holding Company KSCP (EHH)	Contract awards may be at risk of corruption, for which Staff finds no evidence of mitigating controls. Partly mitigated by public works being socially beneficial.	-	-	No	Maintain restriction
Sudatel Telecom Group Ltd	Extremely serious allegations though have not been verified by international agencies as far as Staff is aware. A near pure play in Sudan.	-	-	No	Maintain restriction

Historical Performance Impact:

SFERS has licensed custom indices to approximate the performance impact on the total fund due to restricting investment in U.S. tobacco companies. The methodology and limitations of this approach are detailed in a separate Board report.

As shown below, SFERS decision to restrict its managers from investing in U.S. tobacco companies has had a negative impact on the performance of the total fund since 1998. This impact has been minimal at about 3bps on an annualized basis over the duration of the period.

Custom Index Relative Returns and Volatility - Total returns (net dividends) in USD

Index Name	Restriction Weighting*	Cumulative Return**	Annualized Return**	Annualized Volatility**	Dollar Impact
ACWI IMI ex Sudan	0.07%	0.42%	0.01%	-0.02%	+\$29.2m

* Weightings of restricted stocks in the generic MSCI ACWI IMI Index at June 30, 2020.

** Relative returns and volatility are against the MSCI ACWI IMI Index from custom index inception (November 30, 2006) through to June 30, 2020.

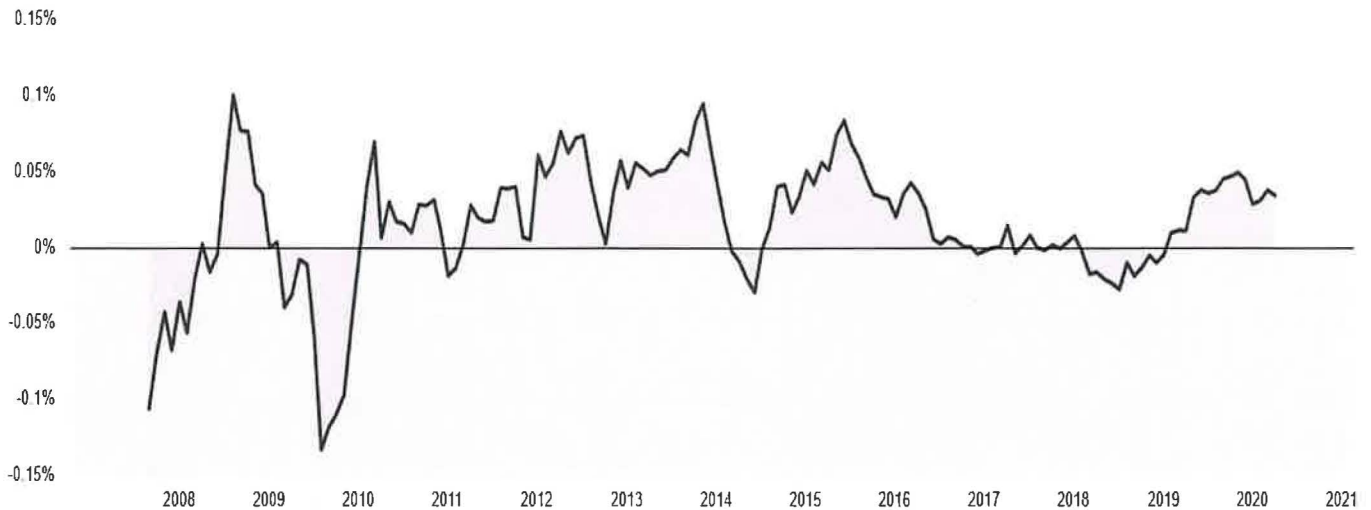
Source: MSCI. Refer to disclaimer below.

³⁰ Disclaimer: Certain information ©2020 MSCI ESG Research LLC. Reproduced by permission, no further redistribution. Although SFERS' information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness of any data herein. None of the ESG Parties makes any express or implied warranties of any kind, and the ESG Parties hereby expressly disclaim all warranties of merchantability and fitness for a particular purpose, with respect to any data herein. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein. Further, without limiting any of the foregoing, in no event shall any of the ESG Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

ACWI IMI ex Sudan Rolling 12 Month Relative Returns

Quant Analytics - Rolling Relative Return (12M)

MSCI ACWI Investable Market TR Net USD



Total returns (net dividends) in USD.

Source: MSCI. The MSCI data is comprised of a custom index calculated by MSCI for, and as requested by, SFERS. The MSCI data is for internal use only and may not be redistributed or used in connection with creating or offering any securities, financial products or indices. Neither MSCI nor any other third party involved in or related to compiling, computing or creating the MSCI data (the "MSCI Parties") makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and the MSCI Parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to such data. Without limiting any of the foregoing, in no event shall any of the MSCI Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Recommendation:

As approved by the Board at the October 2019 meeting Staff will continue to evaluate the transition of power in Sudan in the coming years. This review will focus on the following events as key for monitoring the transition progress:

1. The removal of the Sponsor of State Terrorism designation by the US government.
2. The 21-month Sovereignty Council leadership change to a civilian.
3. The 2022 elections and whether military figures in the Sovereignty Council step aside.

In the interim, based on the analysis contained in this report, Staff recommend the Board approve the following motions:

- 1) *Motion to approve the new restricted list in Appendix C.*

Appendix A

Sudan Investment Restriction Criteria

The San Francisco Employees Retirement System (SFERS) shall not invest in public securities of companies that conduct business in Sudan if the company either:

- A. Supplies military equipment in the Sudan.*
- B. Provides equipment or resources that may be used for military purposes, such as radar systems or military vehicles, without safeguards to prevent the equipment's use for military purposes.*
- C. Engages in oil-related activities, mineral extraction, and/or power generation transmission or distribution in Sudan without governance and controls in place to mitigate environmental, social, and governance risks.*
- D. Engages in business with the government of Sudan without governance and controls in place to mitigate environmental, social, and governance risks.*
- E. Has demonstrated complicity in the Darfur genocide.*

Appendix B
Companies Restricted from Investing
Due to Activities in Sudan

Company	Subsidiaries
AviChina Industry & Technology Company Limited	n/a
Jiangxi Hongdu Aviation Industry Co., Ltd.	n/a
Sudatel Telecom Group Ltd	n/a
The Energy House Holding Company KSCP	Al-Enmaa Real Estate Company KSCP KUWAIT FINANCE HOUSE K.S.C.P KUVEYT TURK KATILIM BANKASI ANONIM SIRKETI
Harbin Electric Company Limited, a	n/a
Offtec Holding Group Company (P.L.C.)	n/a
PETROLIAM NASIONAL BERHAD (PETRONAS)	PETRONAS Capital Limited PETRONAS CHEMICALS GROUP BERHAD PETRONAS GAS BERHAD PETRONAS DAGANGAN BERHAD

Updated: October 2020

Note1: MSCI ESG Research data was used to create the information provided.

Note 2: Strikethrough text format represents removals.

Appendix C
Companies Restricted from Investing
Due to Activities in Sudan

Company	Subsidiaries
AviChina Industry & Technology Company Limited	n/a
Jiangxi Hongdu Aviation Industry Co., Ltd.	n/a
Sudatel Telecom Group Ltd	n/a
The Energy House Holding Company KSCP	Al-Enmaa Real Estate Company KSCP KUWAIT FINANCE HOUSE K.S.C.P KUVEYT TURK KATILIM BANKASI ANONIM SIRKETI
Harbin Electric Company Limited, a	n/a
Offtec Holding Group Company (P.L.C.)	n/a
PETROLIAM NASIONAL BERHAD (PETRONAS)	PETRONAS Capital Limited PETRONAS CHEMICALS GROUP BERHAD PETRONAS GAS BERHAD PETRONAS DAGANGAN BERHAD

Updated: October 2020

Appendix D

Company Analysis – Sudan Involvement

The following section provides an analysis of each company's business activities and governance and controls around ESG risks.

Al Baraka Banking Group B.S.C.

Al Baraka Banking Group B.S.C. operates in the banking industry through providing products and services in the Middle East, Europe, North Africa, and Africa including Sudan. The banking group offers international, commercial, retail, corporate, and investment banking services, as well as financing and treasury services. The company operates around 700 branches and is headquartered in Bahrain.

MSCI research finds that Al Baraka Banking Group had operations in Sudan through its majority-owned subsidiary, Al Baraka Bank Sudan (ABS), an Islamic banking institution.³¹ The 2018 Annual Report, reports that ABS has a capital contribution with the National Agency for Insurance and Finance Exports, a Sudanese state-owned company.³² Staff did not find any public evidence of recent misuse of funds by this subsidiary related to Sudan's government.

MSCI does not provide ESG ratings for this company. No anti-bribery or corruption (ABC) or human rights policies were publicly available on the group's website. The company does have an anti-money laundering policy and reflects a commitment to the local community through its core principles and vision ("we believe society needs a fair and equitable financial system, one which rewards efforts and contributes to the development of the community"). The 2018 Social Responsibility reports that "Al Baraka Sudan participated in the Economic Opportunities and Social Investments Program through providing Shari'a-compliant financing to community development projects by financing projects that supports healthcare, Micro and SMEs businesses in the areas of agriculture, trade, transportation and local industries."³³ The total amount contributed in this Program was over US\$56 million in 2018. The company's most recent annual report affirms the group's "commitment to the Global Goals for Sustainable Development...[and] the Ten Principles of the UN Global Compact (on Human Rights, Labour, Environment and Anti-Corruption)."³⁴ In 2019, the UN reported that the banking group became the first bank in West Asia to commit to UN Principles for Responsible Banking. This commitment also included a pledge of about \$200 million in 2019-2020 in support of renewable energy and energy efficiency projects.³⁵

Atlas Copco

Atlas Copco is a Swedish industrial company with global operations that reach customers in more than 180 countries. The company produces compressors, vacuum solutions, generators, pumps, power tools and assembly systems. The company website notes that, "Atlas Copco has no operational sites or employees in Sudan. Sales: Atlas Copco sells air compressors, construction equipment and spare parts through distributors. Revenues from Atlas Copco's presence in Sudan account for only a fraction of a percentage point of the total sales."³⁶ Atlas Copco works through DAL Engineering, which has connections to Sudan's government, and AlHandasia as distributors in

³¹ <https://albaraka.com.sd/index.php/en/pages/details/8/1>

³² https://albaraka.com.sd/index.php/en/home/annual_reports

³³ https://www.albaraka.com/media/pdf/cc/SDGReport_2018ENG.pdf

³⁴ https://www.albaraka.com/media/pdf/cc/SDGReport_2018ENG.pdf

³⁵ <https://www.unenvironment.org/news-and-stories/press-release/ai-baraka-banking-group-bsc-becomes-first-bank-west-asia-commit-un>

³⁶ <https://www.atlascopcogroup.com/en/sustainability/living-by-the-highest-ethical-standards/complex-markets/sudan>

Sudan. As MSCI reports, as of July 2020, Atlas Copco Finance DAC issues capital securities on behalf of its parent, Atlas Copco. As MSCI reports, the company also engaged in substantial volunteer activities “to provide water to 12,500 residents in Sudan’s Red Sea State.”

Atlas Copco did not provide additional activities regarding their activities in Sudan in either their 2020 quarterly financial reports or 2019 Annual Report. Atlas Copco has a strong anti-corruption reporting system, code of conduct, and works towards the U.N.’s sustainable development goals.³⁷ The company receives a high score in avoiding and managing corruption and instability by MSCI. In Staff’s view, the business profile is consistent with development and the tradeoff inevitably is operations in politically unstable countries with higher risks of corruption.

Bank of Beirut S.A.L

Bank of Beirut S.A.L., founded in 1970, is a provider of banking products and services for both individuals and corporates in Lebanon, Europe, Australia, the Middle East, and Africa. The banks services include consumer banking, loans, debit and credit cards, and trade related services. The company also provides asset management, corporate treasury, and electronic payroll services. The bank has branches in Lebanon, Cyprus, Oman, along with United Arab Emirates, Nigeria, and Ghana.

The bank has a partnership with the Bank of Khartoum as confirmed on their website as of August 2020. MSCI also flagged the bank for a subsidiary, Cofida Holding, given their minority stake in the Sudanese French Bank (SFB). Sudan government entities hold 17% ownership of SFB. No mention of operations in Sudan were included in the 2018 annual report or most recent financial statements.

Staff found on their website evidence of an Anti-Bribery & Anti-Corruption (ABC) policy and an Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) policy along with a Code of Conduct that covers human rights. Their ABC and AML/CFT policies include staff training and compliance monitoring programs.³⁸ The bank was not covered by MSCI ratings.

Bharat Heavy Electricals Limited

Bharat Heavy Electricals Limited (BHEL), founded in 1964 in India, operates as an engineering and manufacturing company in the energy and infrastructure sectors along with global manufacturing of power equipment. It serves customers in power, transmission, transportation, renewables, water, oil and gas, defense and aerospace, and other industries. BHEL is listed in India and majority owned (63%) by the government of India.

As of June 2020, Bharat Heavy Electricals Limited (BHEL) maintained an office in Sudan. While Sudan was not mentioned in the Q2 2020 investor presentation, the country was listed on BHEL’s website as one of the 83 countries where the company has operations.³⁹ In August 2018, the company told MSCI ESG Research that the company is no longer involved in the operations of the Kosti Thermal Power Plant and is not under any contract to oversee plant operations. The Kosti Thermal Power Plant is being operated by the Sudanese authorities. However, BHEL remains responsible for warranty obligations as provided in its contract. BHEL noted that as of August 2018, the company is not providing any other products and services to Sudan.

³⁷ <https://www.atlascopcogroup.com/en/sustainability/living-by-the-highest-ethical-standards>

³⁸ <https://www.bankofbeirut.com/content/uploads/InvestorFinancialHighlightLevel/Bankofbeirut-AnnualReport-2018200616095844466~.pdf>

³⁹ http://www.bhel.com/index.php/global_presence

BHEL has made recent progress in ESG governance as reported through their participation in the UN Global Compact.⁴⁰ The company also has a code of conduct that establishes its anti-corruption stance. The company has created a vigilance mechanism that “is headed by Chief Vigilance Officer who acts as an extended arm of Central Vigilance Commission (CVC) in the Company. All units & divisions of BHEL have a vigilance set-up headed by a senior officer reporting to the CVO. To reduce the chances of corruption, preventive vigilance has been the focus area in BHEL.”⁴¹ The company received a B score by MSCI in 2019 and a 4.7 in corruption and instability, which is on par with industry peers.

BYD Company Limited

BYD Company Limited, together with its subsidiaries, engages in the rechargeable battery and photovoltaic, handset components and assembly, and automobile businesses worldwide. The company has two major subsidiaries, BYD Automobile and BYD Electronic. It was founded in 1995 and its corporate headquarters are located in China.

The company was flagged due to operations with Giad Motor Company. In November 2016, BYD reported in a Press Release that the company and Giad Motor, is a subsidiary of Sudan-based Giad Group, a state-owned company, had signed a purchase agreement for 10,000 units of BYD passenger vehicles.⁴² Additionally, China Daily reported in September 2015 that BYD set up an assembly plant in Sudan for gasoline powered cars.

While full policies were not publicly available, a commitment to anti-corruption and bribery was included in the 2019 Corporate Social Responsibility Report. The report also noted that the company maintains policies that include a Code of Conduct, Employee Professional Ethic Guidelines, and Whistleblower Protection and Incentive Measures. The company is also a member of the China Enterprise Anti-Fraud Alliance. The report also outlines staff programs on anti-corruption along with supplier policies that include anti-corruption requirements.⁴³

China Communications Construction Company Limited

China Communications Construction Company (CCCC) Limited is involved in the infrastructure construction, design, and dredging industries. The company constructs various infrastructure projects, including roads, railway, airports, and housing. The company also provides infrastructure design services, such as consulting and planning/feasibility studies. Its shares are listed shares on the Hong Kong Stock Exchange.

MISCI reports that as of October 2019, CCCC had operations in Sudan through its subsidiary China Harbour Engineering Company (CHEC), which maintained an office in Khartoum that handled an airport construction project and port construction project. As of December 2018, CCCC owned 50% of CHEC. The company has engaged in several projects in Sudan over the last decade. For example, in 2013 the company reported a USD 700 million contract with the Sudanese Government for phase I of the construction of a new international airport 40 kilometers south of Khartoum. CCCC’s 2019 Annual Report did not mention operations in Sudan.

The most recent social responsibility report calls out, “cooperation with Sudan’s Sea Ports Corporation, CCCC has built several large container terminals in Port Sudan, and the 100,000-to freighter can pass freely; it has also built oil

⁴⁰ <https://www.unglobalcompact.org/participation/report/cop/create-and-submit/active/430394>

⁴¹ http://www.bhel.com/financial_information/pdf/19-20/Annual_report_2019-20.pdf

⁴² https://www.chinadaily.com.cn/business/motoring/2015-09/03/content_21782744.htm

⁴³ <https://www.byd.com/en/SocietyDevelopment.html>

and oil products terminals there. Today, Port Sudan has become one of the most competitive sea ports."⁴⁴ This work emphasizes the benefit of operations to Sudan's economy. The company maintains basic governance protections in areas including corruption.⁴⁵ The 2016 Corporate Social Responsibility report also outlined their anti-corruption stance along with actions taken when violations occur.⁴⁶

China National Petroleum Corporation

China National Petroleum Corporation is a Chinese state-owned oil and gas company. The company integrates the business portfolios of both an oil company and an oilfield service provider to enable their operations to cover the entire oil and gas industry value chain. The company operates and has interests in over 30 countries.

As MSCI reports, as of early 2020, China National Petroleum Corporation (CNPC) was engaged in oil and natural gas exploration, production, and refinery operations in Sudan. CNPC also provided engineering and oilfield services, electric pump leasing services and operated a chemical facility in Sudan. The company also had an overseas representative office in Sudan through China Petroleum Engineering & Construction Company (CPECC). As of December 2018, CNPC owned 54.29 percent of China Petroleum Engineering Corporation (CPEC) which in turn owns 100 percent of CPECC.

The company holds several concessions in Sudan. For example, MSCI reports that Block 6 is held in partnership with Khartoum-based Petro Energy Operating Company (PEOC), which was established by CNPC under its production sharing agreement with Sudan National Petroleum Corporation (Sudapet). Block 6 is near the Darfur region and the border with South Sudan. MSCI research highlights that CNPC's interests in Sudan date back to 1998.

The company has extensive Integrity and Compliance Guidelines which include a section on bribery. CNPC also has an Anti-corruption Risk Prevention and Control System, as outlined under their 2019 annual report corporate governance section. CNPC's 2018 corporate social responsibility (CSR) report describes improvements the company has made to compliance processes, including strengthened responsibilities of leaders for legal compliance and company-wide training.

China Petrochemical Corporation

China Petrochemical Corporation (Sinopec Group) is a petroleum and petrochemical enterprise group. Sinopec Group operates in the areas of oil and petrochemical products, oil and gas production, refining, and chemicals. Its total number of gas stations ranks the second place in the world. Sinopec Group ranked the 2nd on Fortune's Global 500 List in 2019.⁴⁷

As of August 2019, Sinopec Group had business involvement in Sudan's oil and gas industry through Sinopec Zhongyuan Petroleum Engineering, Ltd (ZPEB) International, an indirect subsidiary. A 2015 20-F US SEC filing, disclosed that Sinopec Group's overseas asset portfolio included an oil and gas development projects in Sudan. Sinopec Group, through its subsidiary Zhongyuan Petroleum Exploration Bureau (ZPEB International), continued to operate a Khartoum-based subsidiary, ZPEB International Sudan that provided oilfield services to several major oil consortia in the country. Based on a review of its website, the company provided services to Petro-Energy E&P, which is partially owned by Sudapet, an entity affiliated with the Sudanese government.

⁴⁴ <http://en.ccccltd.cn/corporateculture/socialresponsibilityrepc/>

⁴⁵ http://en.ccccltd.cn/corporateculture/Conduct/201505/t20150525_38485.html

⁴⁶ <http://en.ccccltd.cn/corporateculture/socialresponsibilityrepc/201709/P020170920602322264289.pdf>

⁴⁷ <https://fortune.com/global500/>

The company is not rated by MSCI. The company has limited ESG controls including a Handbook of Integrity and Compliance Management along with a risk prevention and control mechanism for compliance outlined in the Notice for Enhancing Contract Compliance Management. The company also reported on the implementation of Whistleblowing Policies in their 2019 Annual Report.⁴⁸

China Three Gorges Corporation

China Three Gorges Corporation (CTG) is a Chinese state-owned clean energy group focused on large-scale hydropower development and operation. CTG is also engaged in renewable energy businesses including wind and solar power.

As of December 2019, China Three Gorges Corporation had business activities in Sudan through its wholly-owned China International Water & Electric Corp (CWE). In February 2017, CWE constructed the first hydropower unit of the Upper Atbara Dam Complex located in the Gedaraf Governorate, which is owned by the Ministry of Water Resources, Irrigation and Electricity of Sudan.

The company has basic ESG governance policies in place, however it has faced allegations of corruption in dam projects in China.⁴⁹ Their 2018 Annual Report noted efforts to promote anti-corruption work at the company.

CRRC Corporation

CRRC Corporation Limited and its subsidiaries research, design, develop, manufacture, sell, refurbish, service, and lease locomotives and rolling stock in Mainland China and internationally. As of October 2017, CRRC Corporation exported Diesel Multiple Units (DMUs) in Sudan through CRRC Ziyang. As of December 2019, CRRC Corporation owned 99.61 percent of CRRC Ziyang.⁵⁰

CRRC was flagged in MSCI's corruption and instability score due to a controversy in June 2020 where South Africa alleged the company paid kickbacks to secure locomotive contracts with Transnet Freight Rail. No allegations were listed for the country of Sudan. MSCI research found an anti-corruption policy that covers select suppliers along with statements of the company's commitment to address bribery and corruption. They also maintain internal and external assurance of compliance with ethical standards.

El Sewedy Electric Co SAE

El Sewedy is an integrated energy solutions provider in the Middle East and Africa. It is majority owned by the El Sewedy family and is partly listed on the Egyptian stock exchange. MSCI research notes electricity related dealings with the Sudan government dating back to 2010. In 2020, El Sewedy Regional Director Ibrahim Qamar stated that, "Renewables for us is one of the main business units...at Elsewedy Electric we have many projects in Egypt and Sudan."⁵¹ As of June 2020, the company also listed several subsidiary offices in Sudan.⁵²

A review of the company's website confirms that at least one electrical product manufacturing plant is in Sudan. The company's 2018 financial statements disclose a related party receivable at 12/31/17 of EGP 4.8 million

⁴⁸ http://www.sinopec.com/listco/En/investor_centre/reports/

⁴⁹ <https://www.reuters.com/article/us-china-corruption-dam/chinese-criticize-state-firm-behind-three-gorges-dam-over-graft-probe-idUSBREA1R0AJ20140228>

⁵⁰ <https://www.crrcgc.cc/en/g7389/s13996/t290245.aspx>

⁵¹ <https://africanbusinessmagazine.com/company-profile/elsewedy/eastern-promise/>

⁵² https://www.elsewedyelectric.com/media/3432/issue_14.pdf

(~USD300,000) with “Electricity Authority – Sudan”, which reduced to zero at 12/31/18. The company's website, financial statements and investor presentations are available in English, but the Directors' reports are not and therefore limited information is available. One English language source, referring to company disclosures, states that activity in Sudan contributed 1.1% of consolidated profit in the FY2018, via “transformers and cables plants”, and indicated the ongoing operation of two plants.⁵³

In Staff's view, the business profile is consistent with increasing electricity and energy access in developing nations and the tradeoff inevitably is operations in politically unstable countries with higher risks of corruption. The company appears to maintain basic ethics and compliance frameworks.⁵⁴ This governance helps to avoid the risks associated with operating in areas with high perceived corruption. The turnkey project business is dominated by gas-fired electricity generation development. Staff consider the provision of electricity infrastructure, including gas-fired plants, in developing nations such as Egypt and Sudan, to be extremely important for social and economic development.

General Electric Company

The General Electric Company (GE) is an American multinational company. GE is best known for its work in the power, renewable energy, aviation and healthcare industries. The company is involved in Sudan through Baker Hughes (BH) however GE is in the process of fully divesting from BH. In July 2020 they announced that full divestment will take place over the next three years, and they have already partially divested and hold a 37% stake.⁵⁵ According to MSCI, as of March 2020, GE Capital UK Funding Unlimited issued capital securities on behalf of its parent company.

GE's involvement in Sudan takes place through their minority stake in BH. There is no mention of BH's involvement in Sudan in their 2019 annual report or 2020/2019/2018 10-Ks. BH did provide a form SD which covers conflict minerals including a gold mine in Sudan which they could not confirm was conflict free.⁵⁶ In a filing with the SEC, GE reported on 2017/18 activities in Sudan, noting “business involving Sudan and Syria represented less than 0.01% of total GE Company revenue.” Furthermore, “In January 2018, BHGE's Oilfield Services business and National Upstream Solutions Co. Ltd (NUS), a wholly-owned subsidiary of State-owned Sudapet, signed a Master Service Agreement to develop Sudan's upstream oil field services. BHGE made the first delivery under that agreement in May 2018. In addition, BHGE and Sudapet's fully-owned subsidiary ASAWER signed an MoU in November 2017 for the two companies to engage in developing some of Sudan's local capabilities in the oil and gas sector. BHGE has also entered into an agreement to sell process chemicals to an oil refinery in Sudan via a channel partner.”⁵⁷

GE is regulated under the Foreign Corrupt Practices Act and is a member of the UN Global Compact (as of August 2020). MSCI notes that the company has “robust ethics and compliance frameworks compared to industry peers.” GE has faced several controversies around bribery and corruption, but staff did not find any in relation to Sudan.

Harbin Electric Company Limited

Harbin Electric Company Limited manufactures and sells power plant equipment in the People's Republic of China. The company also engages in the research and development, and production of clean energy products comprising solar energy, hydropower, and desalination products.

⁵³ <https://www.arabfinance.com/en/news/details/egypt-companies/477986>

⁵⁴ <https://www.elsewedyelectric.com/en/sustainability/compliance/>

⁵⁵ <https://pubs.spe.org/en/jpt/jpt-article-detail/?art=7419>

⁵⁶ <https://sec.report/Document/0000950103-19-007313/>

Harbin Electric Company Limited is involved in Sudan through its subsidiary Harbin Electric International (HEI). HEI maintains an office in Khartoum and is involved in power production and transmission projects in Sudan. As of December 2018, HEC wholly-owned HEI. HEI has been involved in a series of projects in Sudan, however as MSCI reports, there is no information on status of these projects and HEI's involvement after 2018. Projects include the Sudan River Nile State Transmission Project, Dongola- Wadi Halfa Transmission Line Project, Provision of Power Generation Equipment for Kajbar Project, and Rumela Hydropower Station, Red Sea Coal-fired Power Plant Project.

The company is not covered by MSCI ratings. While staff see the provision of energy infrastructure as in line with the development of Sudan, staff were unable to verify that the company had the necessary governance and controls in place to mitigate environmental, social, and governance risks.

Hyundai Motor Company

Hyundai Motor Company along with its subsidiaries distributes motor vehicles and parts worldwide. Hyundai is based on South Korea and has a market cap of \$34,688.04 MM. The company works with Elbarbary Engineering Co. Ltd., Giad Motors, and Capital Motors as distributors in Sudan.⁵⁸ Giad Motors is a state-owned subsidiary.⁵⁹

Hyundai is currently working to improve their corporate governance and controls but lags other large multi-national companies. Hyundai's 2020 Sustainability Report covers their controls around corruption and bribery. These controls include employee trainings along with self-assessments by risk areas including anti-corruption.

International Container Terminal Services, Inc.

International Container Terminal Services, Inc. (ICTSI) based in the Philippines operates container terminals for both inbound and outbound cargo flows. The company also handles containerized cargoes; and provides a range of ancillary services, including storage, container packing and unpacking, inspection, weighing, and services for refrigerated containers or reefers. In 2020 it was managing 31 terminal concessions and port development projects spanning 18 countries.

In January 2019, the company disclosed in its 2019 Form 17-A (Annual Report) that the company's wholly-owned subsidiary ICTSI Middle East DMCC, signed a concession agreement with the Sea Ports Corporation of Sudan (SPC), which is a Sudanese state corporation, to operate, manage and develop the South Port Container Terminal (SPCT) for 20 years and established Africa Gateway Terminal (AGT) to operate the terminal.⁶⁰

While ICTSI has low score in the MSCI Corruption and Instability category, they also note that ICTSI has "robust ethics and compliance frameworks compared to industry peers." ICTSI maintains a Code of Business Conduct which includes anti-corruption and bribery sections.⁶¹

Kirloskar Brothers Limited

⁵⁷ <https://www.sec.gov/Archives/edgar/data/0000040545/000004054518000064/filename1.htm>

⁵⁸ <https://www.hyundai.com/worldwide/en/onepage/country.sd>

⁵⁹ <https://www.autonews.com/china/byd-ship-10000-vehicles-sudan>

⁶⁰ <https://www.offshore-energy.biz/ictsi-to-boost-presence-in-africa-with-cameroon-port-concession/>

⁶¹ https://cdnweb.ictsi.com/s3fs-public/inline-files/ictsi_-_code_of_business_conduct.pdf

Kirloskar Brothers Limited, founded in 1888 in India, provides global fluid management solutions. The company serves industry, building and construction, oil, and gas, marine and defense, irrigation, power, and water resource management markets through a network of dealers and distributors.

Kirloskar Brothers' corporate presentation does note that is associated with the government of Sudan.⁶² No further information was publicly available and MSCI does not provide ratings for this company. The company does have a Code of Ethics that covers basic anti-corruption policies and notes the company is subject to all relevant anti-corruption laws, including the U.S. Foreign Corrupt Practices Act.⁶³ However, in August 2020 India's government recently charged the company in a fraud case.⁶⁴

Managem S.A.

Managem is a mining company controlled by the Moroccan royal family and listed on the Casablanca Stock Exchange. Managem is a subsidiary of Al Mada - Positive Impact, a private equity pan-African investment fund. It has operations in nine countries in Africa, including Sudan. Products include copper, silver, gold, fluorite, cobalt, zinc and lead.

Interests in Sudan are via controlling stakes in MANUB (78%) and MCM (100%). According to its 2019 annual report, "Managem has been developing gold mining assets here since 2009. Its exploration permits cover approximately 14,000 km². In 2018, Managem completed construction of its production plant, which is designed to produce two tonnes of gold per year." The company continues to invest in exploration and development of mines in Sudan along with operations at the Gabgaba gold mine.⁶⁵

As an example of the risks associated with mining valuable products in politically unstable countries with a high risk of corruption, Reuters reports that 241kg of Managem's gold was seized by the RSF in early 2019 in an investigation into possible smuggling. The gold has since been returned to the company.⁶⁶

In 2018, Managem updated its Corporate Social Responsibility Charter, which is published in its 2018 annual report. The annual report highlights a guiding principle of "ensuring full compliance with the rules of business ethics and market regulations and the Charter makes statements on the company's business ethics being "rigorous". Though lacking detail, Staff interpret this to be alluding to anti-corruption and bribery. The Charter offers more detail on human rights and lists specific international conventions that the company follows. The Charter also states that its corporate social responsibility objectives are integrated into training programs and are subject to regular audits by independent third-party experts.

Mena for Touristic and Real Estate Investment Co SAE

⁶² http://www.kirloskarpumps.com/pdf/investor-information/company-overview/Corporate%20Presentation_192016.pdf

⁶³ <http://www.kirloskarpumps.com/pdf/Code%20of%20Ethics.pdf>

⁶⁴ <https://www.hindustantimes.com/business-news/sebi-pulls-up-kirloskar-s-promoters-for-fraud/story-yOc0er4IULaY8YGM9dIFhP.html#:~:text=The%20markets%20regulator%20has%20charged,the%20interests%20of%20minority%20investors.>

⁶⁵ http://www.managemgroup.com/sites/default/files/2019-09/Managem%20-%20Annual%20report%202018_1.pdf

⁶⁶ <https://www.reuters.com/article/morocco-sudan-mining/moroccan-miner-managem-says-it-retrieved-gold-seized-by-sudan-authorities-idUSL8N2345MZ>

Mena for Touristic and Real Estate Investment Co SAE is an Egypt-based company active in real estate projects development and construction. The Company is engaged in land subdivision for the purpose of constructing residential, commercial, touristic real estate projects. It provides project management, sales and marketing services to investment and development organizations in Egypt and African countries including Sudan.

The company listed two real estate projects in Sudan, the El Yasmine Residence (EYR) and Hai El Mal (HEM) in 2019. El Yasmine Residence Project is a residential community project and shareholders included Sudan state owned Social Security Investment Authority. The Hai El Mal Project is a 150,000-square meter mixed-use development project, with residential, business, and service areas. Both projects were listed on the Mena website as of September 2020, however neither were noted under the 'Current and Future Projects' list.⁶⁷

MSCI does not provide ESG ratings for this company. Financial statements and audit reports were not available in English. No governance documents including an anti-bribery policy were publicly available. However, given the limited involvement in current development projects in Sudan along with the focus on housing, SFERS sees limited ESG risks.

Mitsubishi UFJ Financial Group, Inc.

Mitsubishi UFJ Financial Group (MFUG) is a leading global financial services group and one of the largest banking institutions in Japan. MUFG is listed on the Tokyo, Nagoya, New York stock exchanges.⁶⁸

MSCI research flags Mitsubishi UFJ Financial Group, Inc. for Sudan due to a subsidiary with deposits outside the US from entities that are affiliated with the Sudanese government as of January 2020. According to its SEC Form CORRESP published April 2017, the company, through its Japan-incorporated primary banking subsidiary The Bank of Tokyo-Mitsubishi UFJ Ltd., had deposits outside the US from Sudan government-affiliated entities, such as government-affiliated banks. These are mainly related to Japanese export and import transactions with the country. Sudan connected activity represents less than .01% of bank remittance transaction volume.⁶⁹ In January 2020, the company told MSCI ESG Research that no material change had taken place since such disclosure.

Mitsubishi UFJ Financial Group, Inc has basic policies, e.g. Code of Conduct mentioning avoidance of corruption and bribery.⁷⁰ Given the scope of the group's operations in Sudan, the group finds low ESG risk associated with the company.

Nissan Motor Company

Nissan Motor Co., Ltd. manufactures and sells vehicles and automotive parts worldwide. Nissan has a market cap of \$15,933.72 MM and is based out of Japan. It sells vehicles under the Nissan, Infiniti, Datsun, Heritage, and Motorsports brands.

Dongfeng Motor Group Company Limited, with 50% Nissan ownership, manufactures and sells commercial vehicles, passenger vehicles, and auto engines and parts in the People's Republic of China. As of July 2020, Dongfeng Motor Group, through its China-based subsidiary, Zhengzhou Nissan Automobile (ZNA), had operations in Sudan. ZNA had

⁶⁷ <http://www.mena.com.eg/en/types.php?cid=3>

⁶⁸ <https://www.mufig.jp/english/profile/overview/index.html>

⁶⁹ <https://www.sec.gov/Archives/edgar/data/0000067088/000119312517145086/filename1.htm>

⁷⁰ <https://www.lf.mufig.jp/english/corporate/governance/compliance.html>

licensed Giad Motor, a Sudan-state-owned company, to produce station wagons and pick up vehicles in Sudan. As of September 2019, Nissan Motor owned 50 percent of Zhengzhou Nissan Automobile. Nissan Motor also sold its vehicles and provided after sales services in Sudan through Bashir Motors Company, a third-party dealer based in Khartoum.

While Nissan lag peers, it is focused on improving its governance and control and is providing regular reporting on progress. They have detailed governance policies including an anti-bribery policy.⁷¹ As their 2019 Sustainability Report notes, "we have created sets of internal rules and policies globally covering the...prevention of bribery and corruption. We make efforts to prevent noncompliance and reputation risk by raising awareness through the implementation of various activities, including education and training programs."⁷²

Nokia Ojy

Nokia Corporation engages in the network and technology businesses worldwide. The company operates in four segments: ultra-broadband networks, global services, IP networks and applications, and Nokia Technologies. Nokia is working with Sudatel to bring ultra-broadband services in Sudan and contribute to enhancing the Broadband Development Index.⁷³ Sudatel, a state-owned company, sees this partnership as beneficial as it will help bring Nokia's technology expertise and innovations to Sudan. This work is aligned with supporting development in Sudan. Nokia is also involved in Sudan through acquiring Alcatel Lucent which had limited activity through involvement in the East African Submarine Cable System (EASSy), which spanned from Port Sudan to South Africa.

Nokia has taken steps to ensure validation of supply chain. In 2020 a SEC report included a request to remove a gold refinery in Sudan due to the lack of validation.⁷⁴ This demonstrates attention to their supply chain impact in Sudan. Nokia also receives strong ESG ratings from MSCI, and Nokia demonstrates a strong set of policies around conduct and anti-corruption including a 5-element program focused on risk assessment, training, communications, reporting and resolution, and program evaluation.⁷⁵

Offtec Holding Group Company (P.L.C.)

Founded in Jerusalem in 1910, Offtec works in the areas of banking technologies, office technologies, furniture solutions, physical security solutions, IT infrastructure, cyber security, software solutions, and plastic card technologies. Offtec operates in Jordan, Palestine, Sudan, and Iraq.

The company was flagged by MSCI due to Offtec Sudan, which provides banking and office technologies, security solutions, and other IT services in the country. As of September 2020, the company disclosed that one of its customers included the Sudan Taxation Chamber, a government agency.⁷⁶

Offtec is not rated by MSCI. Staff were not able to find any public policies around corruption and bribery.

Oil India Limited

⁷¹ https://www.nissan-global.com/PDF/190327-01_179.pdf

⁷² <https://www.nissan-global.com/EN/SUSTAINABILITY/LIBRARY/SR/2019/>

⁷³ <https://www.nokia.com/about-us/news/releases/2018/07/03/nokia-and-sudatel-to-collaborate-on-delivery-of-ultra-broadband-services-in-sudan/>

⁷⁴ <https://www.sec.gov/Archives/edgar/data/924613/000134100420000232/sd.htm>

⁷⁵ <https://www.nokia.com/about-us/investors/corporate-governance/code-of-conduct/>

⁷⁶ <https://www.offtec.com/content/taxation-chamber-sudan>

Oil India is an oil and gas company majority owned by the government of India and partly listed NSE and BSE exchanges. Exploration and production of crude oil contributes the greatest share of 2018-19 consolidated revenue (72%), followed by natural gas (14%), and pipelines (2%), with the balance from investments and other.

MSCI research flags Oil India for operations in Sudan due to involvement in an oil pipeline development project dating back to 2004.⁷⁷ In relation to corruption and instability, the latest MSCI ESG Ratings report notes “substantial operations in politically unstable regions or where perceived corruption is relatively frequent.”

Based on the company’s 2018-19 Annual Report, Oil India continues to have a 10% interest in the pipeline, which was completed in 2005. Staff notes this may be based on lease receivables, as other company disclosures note the pipelines has been transferred to the government of Sudan. The pipeline runs 741km from the Khartoum refinery to Port Sudan and allows Sudan’s refinery to export finished petroleum products. As such, the pipeline allows the government of Sudan to earn export revenues and fund domestic expenditure – both military and social programs. Staff’s understanding is this multiproduct pipeline is unrelated to the crude oil pipeline that originates in South Sudan and terminates at Port Sudan.

Oil India is a member of the UN Global Compact. They maintain a Conduct Discipline & Appeal Rules covering any unethical behavior along with a Whistleblower Policy. The company is also a signatory to the Integrity Pact with Transparency International which covers ethical behavior and extends to suppliers.⁷⁸

Orange S.A.

Orange S.A. provides a range of fixed telephony and mobile telecommunications, data transmission, and other value-added services to consumers, businesses, and other telecommunications operators in Europe, Africa, and the Middle East.

MSCI flagged Orange due to subsidiaries engaged in Sudan. In March 2017, Orange told the U.S. Securities and Exchange Commission that the amount of revenues related to its Sudan business involvements remained absolutely de minimis. They are part of the EaSSy consortium, which includes Sudatel which is partially owned by Sudan’s government, a 10,000 km submarine fiber-optic system that services the telecommunication needs of the region. MSCI reports that the company has no other contractual relationship with Sudatel along with holding a policy not to make any payment to nor request any payment from Sudatel.

Orange also told the U.S. Securities and Exchange Commission that the company and its subsidiaries have roaming and hubbing agreements with telecommunication providers in Sudan, including MTN Sudan⁷⁹, Sudatel, and Zain Sudan. Orange disclosed that it had roaming agreements with Sudatel that have not been operationally terminated. However, the company noted that such agreements did not trigger fund transfers.

Orange Business Services, the company’s global IT and telecommunication services division has contracts to provide Virtual Private Network (VPN) and satellite services to local embassies, the International Committee of the Red

⁷⁷ https://www.oil-india.com/pdf/TOPSUBMENU94872MainMenuEnglishLevel-2_TOPSUBMENU7787MainMenuEnglishLevel-2_OIL_Campus_presentation.pdf

⁷⁸ https://oil-india.com/Document/IP_program.pdf

⁷⁹ <https://www.orange.com/en/Press-Room/press-releases/press-releases-2018/Orange-and-MTN-launch-pan-African-mobile-money-interoperability-to-scale-up-mobile-financial-services-across-Africa>

Cross, and three international companies in Sudan. The company also noted that Orange has some indirect air transport industry customers in Sudan, through SITA, a private company that provides air transport communications and information technology services.

Orange has in place both a zero tolerance anti-corruption policy and a code of ethics.⁸⁰ They are also highly rated across categories under the MSCI system.

Orca Gold Inc

Orca Gold is Canadian company, listed on the Toronto exchange, but is a pure play on mineral exploration in East Africa. Block 14, in Sudan's north near the Red Sea, is the company's flagship project that is being advanced towards a production decision according to the company's website. The company believes the project is capable of producing +200,000 ounces per year for at least seven years. According to the company's June 2020 presentation to investors, the development would be owned 70% by Orca, 20% by the government of Sudan and 10% local partner and would pay 7% royalties and 15% corporate tax.⁸¹

According to the company's FY20 Q2 Consolidated Financial Statements, the 70% interest in Meyas Sand Minerals Company Limited (MSMCL), a Sudanese company incorporated to hold the Block 14 exploration licenses in the Republic of the Sudan, in exchange for cash payments totaling USD \$9.5 million.⁸² "The Exclusive Prospecting License (EPL) for Block 14 was originally granted to Meyas Nub under a Concession Agreement dated 19 May 2010. A purchase agreement dated 1 March 2012 (the "Purchase Agreement"), granted Sand Metals Company Ltd (SMCL), a wholly owned subsidiary of Orca, the right to acquire a 70% interest in Meyas Sand Mineral Company Ltd (MSMCL), a Sudanese joint venture company incorporated to hold the Block 14 EPL. Under the terms of the Purchase Agreement, SMCL have paid Meyas Nub US\$9.5M and own 70% of MSMCL."⁸³

Orca Gold has a Code of Business Conduct and Ethics which forbids all employees from corruption and bribery of government officials and also prohibits improper payments in all of its activities, both government and private sector. The code also alludes to an Anti-Bribery and Anti-Corruption Policy, which presumably is an internal document. The code also notes that the company is subject to the Corruption of Foreign Public Officials Act (Canada) and the United States Foreign Corrupt Practices Act (FCPA).

Orca Gold is not covered by MSCI ESG Ratings. Aside from Block 14, MSCI also notes the company had an interest in Block 68, but this was relinquished in 2014.

Petroleum Nasional Berhad (PETRONAS)

PETRONAS is Malaysia's state owned fully integrated petroleum corporation. The company's operations include exploration, development and production of crude oil and natural gas in Malaysia and globally.

⁸⁰ <https://www.orange-business.com/en/our-anti-corruption-commitment#:~:text=Orange%20has%20zero%20tolerance%20towards%20corruption&text=We%20are%20committed%20to%20building,business%20activities%20across%20the%20Group.>

⁸¹ <http://orcagold.com/assets/docs/presentations/2020-06-03-CP-ORG.pdf>

⁸² <http://orcagold.com/assets/docs/financials/200630-ORG-Second-Quarter-Report.pdf>

⁸³ https://www.miningnewsfeed.com/reports/Block14_FeasibilityReport_11072018.pdf

The New York Times reports PETRONAS has a 40% stake in the Dar Petroleum Operating Company. The Dar Petroleum Operating Company, “directly financed militias accused of committing atrocities in the country’s civil war.”⁸⁴ Given this report staff does not demonstrate sufficient controls in place. Staff recommends restricting the company due to the fact that it engages in extractives activities and its conduct in South Sudan indicates that it is not equipped to respond if it is determined its business activities are funding conflict.

As MSCI reports, as of 2020, PETRONAS held a stake in several oil and natural gas exploration, development, and production concessions in Sudan through its subsidiary, Petronas International Corporation (PIC). As of December 2018, PETRONAS wholly-owned PIC. However, recent reports note that the company is likely to pull out of concessions in Sudan due to lack of payment. These concessions, Blocks 2A and 4 in Sudan are split between China’s CNPC (40%), Malaysia’s PETRONAS (30%) and Sudan’s state owned Sudapet (5%).⁸⁵

PETRONAS has a whistleblowing policy, code of conducts along with an Anti-Bribery and Corruption Policy & Guidelines (ABC Manual). PETRONAS shows recent progress on governance controls with MSCI reporting that the company “has obtained an ISO 37001 certification for its anti-bribery management system to help mitigate corruption risks in the organization. The company also participates in external initiatives on business ethics, such as the Malaysia Corporate Integrity Pledge.”

Power Construction Corporation of China

Power Construction Corporation of China (PowerChina) is a Chinese state-owned company and field of infrastructure engineering. PowerChina and its subsidiaries develop hydropower engineering, water works engineering, thermal power engineering, new energy engineering, and other projects including property development.

MSCI highlighted this company due PowerChina’s involvement in multiple Sudanese dam projects including the Merowe Dam⁸⁶, Roseires Dam, and Upper Atbara Dam.⁸⁷ As of June 2018, PowerChina had contracts for the Kajbar Dam Construction Project and the El Renk-Malakal Road Project in Sudan. There were no further updates regarding this project as of July 2020.

MSCI finds that PowerChina has limited policies around corruption and instability. Evidence includes proof of audits but no specific details and general statements of commitment to address bribery and corruption instead of the best practice of a detailed formal policy.

Qalaa Holdings S.A.E.

Qalaa Holdings founded in 2004 is Africa’s largest private equity and venture firm. The firm specializes in growth capital, turnarounds, leveraged buyouts, consolidations, industry roll-ups, greenfields, and distressed investments. The firm is a leader in energy and infrastructure with 15,161 employees including subsidiaries. The investments focus on the industries: energy, cement, agrifoods, transportation and logistics, mining, and printing and packaging.

Qalaa’s involvement in Sudan is primarily through the ASEC Company for Mining (ASCOM). ASCOM has a Khartoum-based subsidiary, Nebta for Geology and Mining (Nebta), which held a precious metals mining concession

⁸⁴ <https://www.nytimes.com/2019/09/19/world/africa/south-sudan-oil-militias.html>

⁸⁵ <https://economictimes.indiatimes.com/industry/energy/oil-gas/ongc-its-partners-likely-to-exit-oil-blocks-in-sudan/articleshow/70490872.cms?from=mdr>

⁸⁶ http://www.chinadaily.com.cn/m/powerchina/2019-02/13/content_37450001_2.htm

⁸⁷ http://www.chinadaily.com.cn/m/powerchina/2019-09/25/content_37512337.htm

and one limestone quarry management contract in Sudan. However, in January 2017, Qalaa Holdings told MSCI ESG Research that such project is not currently operational, and it is unlikely that ASCOM will recommence work on the concession in the future. As of December 2017, Qalaa Holdings owned 54.7 percent of ASCOM.

Qalaa Holdings does not have an ESG ratings report. Qalaa reports a zero-tolerance approach to fraud through their Anti-Fraud Policy covering Qalaa and its subsidiaries. Qalaa also has an anonymous whistle-blowing channel to receive information from inside and outside the company. These policies are bolstered through Qalaa's Risk Assessment Framework along with an Internal Audit. Staff sees minimal ESG risk from Qalaa's activities in Sudan given limited involvement and strong controls.

Ramco Systems Limited

Ramco Systems Limited is a global enterprise software company. Ramco provides cloud, mobile, chatbot and voice-ready ERP, HR, payroll, logistics, and aviation software. Ramco Systems Limited was founded in 1992 and is headquartered in India. Ramco operates a subsidiary in Sudan.⁸⁸

As of July 2020, Ramco through its subsidiary, RSL Software Company, provided services on the software industry and related solutions. In July 2018, Ramco told MSCI ESG Research that the company continues to have the Ministry of Finance and National Economy of Sudan as one of the clients and one other entity which was owned or controlled by the Sudanese government that the company did not disclose. This affirms previous disclosures.⁸⁹

Ramco was not covered by MSCI ESG ratings. The 2017/2018 annual report noted that Ramco does have a Code of Conduct and Whistle Blower Policy that covers the company and subsidiaries.

Reliance Communications

Reliance Communications is a global enterprise voice, data, video, and IT infrastructure solutions company for enterprises, over-the-top (OTT) players, and network operators. Operations cover business Internet, network, cloud networking, data center, enterprise voice, cloud telephony, and access number services along with collaboration services. The company also builds, owns, and operates telecommunication towers and optic fiber cable assets. Reliance Communications is based in India. The company is currently under bankruptcy proceedings.⁹⁰

As MSCI reports, Reliance Communications provided international calls to and from Sudan through Telecommunications tariff agreements with Sudan Telecommunications Group (Sudatel), a government-owned company, and Sudanese Mobile Telephone Company Limited (Zain Sudan), a Telecomm company based in Khartoum. No further information has been disclosed by the company.

Staff could not find evidence of anti-bribery and corruption or other key governance policies. MSCI does not provide ratings for the company. The company is currently in bankruptcy court and in the process of selling off its assets.⁹¹

Saudi Airlines Catering Company SJSC

⁸⁸ <https://www.ramco.com/investor-relations/2019-20/RSL-Software-Company-Limited-Sudan.pdf>

⁸⁹ <https://blogs.ramco.com/ramco-sees-me-playing-key-role-in-growth-strategy>

⁹⁰ <https://www.hindustantimes.com/business-news/reliance-communications-insolvency-rescue-plan-hits-dot-hurdle/story-8jp9Tlo8xHVwOKT5wcl8MI.html>

⁹¹ <https://economictimes.indiatimes.com/industry/telecom/telecom-news/reliance-communications-files-resolution-plan-with-nclt/articleshow/74522310.cms?from=mdr>

Saudi Airlines Catering Company (SACC) is a diversified company offering a full suite of food and beverage, retail, hospitality, and support services to local and international clients. The company started by providing catering services to Saudi Arabian airlines. The company now operates through three segments: Inflight, Retail, and Catering and Facilities. The 2019 annual report provided revenue data of 2.16 billion, with in-flight catering accounting for 63% of revenue.⁹²

MSCI flagged the company due to business ties with Sudan Airways, a company that is partially owned by the Sudanese government. As confirmed by staff in September 2020, SACC listed Sudan Airways as one of its clients. No other details were available.⁹³

SACC covers a code of ethics, whistleblowing and anti-corruption in their Corporate Governance Manual.⁹⁴ However, given the focus on in-flight services there is limited ESG risk with regards to the Sudanese government.

Saudi Telecom Company

Saudi Telecom Company (STC), founded in 1998 in Saudi Arabia, provides communications, information, media, and digital payment services in the Kingdom of Saudi Arabia and internationally. The company offers mobile, landline, Internet, and TV on demand services, as well as international telecommunication, broadband, and other related services; and operates communications projects. The company also owns and operates telecommunications and information technology including towers and develops real estate and importing/exporting services.

STC held a stake (MSCI reports 50 percent stake) in Arab Submarine Cables Company (ASCC), which is a venture in partnership with Sudan state-owned Sudatel Telecom and Arab Investment Company. ASCC works on a submarine telecommunications cable connecting Saudi Arabia and Sudan.⁹⁵ The 2019 Annual report, 2020 Q2 financial report, and investor presentation did not provide any additional information on involvement in Sudan.

STC reports on their governance controls. The 2020 Sustainability Report discusses participation in anti-corruption initiatives (e.g. World Economic Forum's Partnering Against Corruption Initiative) and staff governance trainings. The company also recently published an August 2020 Code of Ethics and Business Conduct.⁹⁶

Schneider Electric

Schneider Electric is a French multinational industrial company specializing in electric power products. The company acknowledges that it conducts business in Sudan, stating that revenue it receives from operations in Sudan is immaterial (at 0.04% of Group sales) and that its physical presence consists of less than five persons. It goes on to state, *"We focus our business in Sudan to activities that help the country improve its electrical power distribution infrastructures: electrical network equipment (substations) that are necessary to enlarge the electrical grid across the country. We believe that by helping the national electric corporation of Sudan or other similar entity(ies) of the government of Sudan whose purpose is to facilitate power generation to expand and upgrade its capacity to deliver reliable electrical service throughout Sudan, we are helping to improve the living conditions of the Sudanese people."*

⁹² <https://www.saudiacatering.com/Annual-Reports/index.html>

⁹³ <https://www.saudiacatering.com/en/client>

⁹⁴ <https://www.saudiacatering.com/Admin/Content/Corporate-Governance-Manual-PDF252202014025.pdf>

⁹⁵ <https://www.globaltradematters.org/saudi-telecom-company-stc-to-buy-55-stake-in-vodafone-egypt/>

⁹⁶ <https://www.marketscreener.com/quote/stock/SAUDI-TELECOM-COMPANY-6497838/news/Saudi-Telecom-stc-launches-its-new-Code-of-Ethics-and-Business-Conduct-31106426/>

Seera Group Holding

Seera Group Holding and its subsidiaries provide travel and tourism in the Middle East and North Africa region. The company operates in the ticketing, tourism, transportation, property rentals, and hospitality industries. Consumer travel and travel management represented over 60% of 2019 revenues based on the 2019 annual report.⁹⁷

In 2018, Seera Group Holding held a role as a general sales agent for the state-owned Sudan Airways, a company that is partially owned by the Sudanese government. Based on a review of the company's website, Sudan Airways is part of the company's list of general sales agent (GSA) passenger airlines. The most recent quarterly consolidated financial statement (Q3 2017) reported terminated activity in Sudan, "On 17 January 2017, the Company has disposed of Al Tayyar International Company Limited - ATS (a 75% owned subsidiary) for a consideration of SR 4.2 million resulting in gain on disposal amounting to SR 2.2 million."⁹⁸ There was no mention in the most recent available board report (2018) of Sudan, however the 2019 annual report noted that the company had sold off a travel company in Sudan.⁹⁹ In the most recent consolidated financial statements available on their website (Q3 2017) the company reported liquidating ownership in the Al Tayyar International Company Limited (ATS).¹⁰⁰

The company's governance documents were unavailable in English and MSCI did not report on the company's governance policies. However, MSCI did provide the company with an overall rating of AA.

Shanghai Pharmaceuticals Holding Co., Ltd.

Shanghai Pharmaceuticals Holding Co., Ltd. is an investment holding company that researches, develops, manufactures, distributes, and retails pharmaceutical and healthcare products in the People's Republic of China. The company provides approximately 700 varieties of drugs. The company also engages in the provision of pharmaceutical distribution, warehousing, logistics. The company also operates approximately 2,000 retail chain pharmacies in 16 provinces. Shanghai Pharmaceuticals Holding Co., Ltd. is a subsidiary of Shanghai Pharmaceutical (Group) Co., Ltd.

MSCI flagged Shanghai Pharmaceuticals Holding Co. due to its wholly-owned subsidiary, Shanghai Pharma Co., Ltd.'s partnership with National Medicine Supplies Fund of Sudan, a state-owned enterprise under the Federal Ministry of Health of Sudan, established Shanghai-Sudan Pharmaceutical Co., Ltd. (SSPC). SSPC produced antimalarial drugs in the Sudan.¹⁰¹

Given the focus on providing lifesaving drugs in Sudan, SFERS does not see this activity as necessitating restriction. However, staff does not see that the company does not have any public information around anti-corruption policies and other key governance documents.

⁹⁷ <https://www.seera.sa/en/investors/reports/>

⁹⁸ <https://seera.sa/wp-content/uploads/2019/04/q3-2017-1554669721.pdf>

⁹⁹ <https://www.seera.sa/en/investors/reports/>

¹⁰⁰ <https://seera.sa/wp-content/uploads/2019/04/q3-2017-1554669721.pdf>

¹⁰¹ https://en.caetexpo.org.cn/html/2019/Manufacturing_0703/120.html

Siemens AG

Siemens AG is a German multinational conglomerate engaged in a variety of industrial business segments, including power generation, automation technologies, and medical devices. The company acknowledges that it conducts business in Sudan stating, *"Siemen's sale of power generating equipment to Sudan is entirely consistent with efforts of the global community to encourage the progress of political reform achieved by the Government of Sudan and economic development projects that address the needs of all of Sudan's people. Exercising SFERS' authority to require divestment from Siemens would be contrary to federal and state policy with respect to Sudan and would work against rather than advance the object of the Social Investment Policies."*

Siemens AG company requested that SFERS "revoke its preliminary determination that Siemens' activities in Sudan meet the criteria for divestment" because SFERS "fails to recognize the substantial changes in Sudan that have led to termination of both the United States and California state sanctions targeting that country."

Syngenta AG

Syngenta AG, which is owned by ChemChina (acquired in 2017), is a global agriculture company that has activities in the areas of crop protection, seeds, and lawn and garden. In 2017 Syngenta reported to the SEC on its activities in Sudan noting that "sales of products in Sudan have continued to consist primarily of herbicides, fungicides, insecticides, seed treatments and seeds. As disclosed on pages 18 to 29 of the Annual Report, these products are designed for use in the agricultural industry."¹⁰² Syngenta operates a local office in Sudan, Syngenta Agro Services AG.¹⁰³ Sales in Sudan in 2017 were less than .1% of Syngenta's total sales. Contact with the government based on 2017 reporting included, "The only agreements, commercial arrangements or other contacts Syngenta has or had with the government of Sudan or entities controlled by the government of Sudan consist of interactions related to the fulfillment of administrative duties, taxation and compliance with local laws and regulations, and sales of goods through government tenders."¹⁰⁴

Syngenta is not covered by MSCI ESG ratings. Syngenta's website includes a code of conduct, an ethics compliance guide for subsidiaries and suppliers, and notes that their reporting is complies with Global Reporting Initiative (GRI) Standards.

Telecom Italia

As MSCI reports, Telecom Italia disclosed that its wholly-owned subsidiary Telecom Italia Sparkle (TI Sparkle) had an agreement with state-owned Sudan TLC, Sudatel Telecom Group, ZAIN Sudan and Canartel for the delivery of voice and data traffic from Sudan to its networks and vice versa. As of December 2018, revenue from international carrier agreements in Sudan was approximately EUR 1,580,000. It also holds roaming agreements with Sudanese Mobile Telephone, MTN Sudan, Sudatel Telecom Group, and Canartel with revenue of EUR 10,000 in 2018. TI Sparkle's institutional access to the Internet in Sudan provided EUR 202,000 in 2018.

¹⁰² [https://www.sec.gov/edgar/search/?r=el#/q=Sudan&dateRange=5y&startdt=2015-09-10&enddt=2020-09-10&category=all&locationType=located&locationCode=all&ciks=0001123661&entityName=SYNGENTA%2520AG%2520\(CIK%25200001123661\)&page=1](https://www.sec.gov/edgar/search/?r=el#/q=Sudan&dateRange=5y&startdt=2015-09-10&enddt=2020-09-10&category=all&locationType=located&locationCode=all&ciks=0001123661&entityName=SYNGENTA%2520AG%2520(CIK%25200001123661)&page=1)

¹⁰³ https://www.syngenta.com/contact-us?country_code=206

¹⁰⁴ <https://www.sec.gov/Archives/edgar/data/0001123661/000095010317005656/0000950103-17-005656-index.html>

Telecom Italia has a human rights policy¹⁰⁵ and a detailed anti-corruption commitment.¹⁰⁶ MSCI provides Telecom Italia with high score in terms of corruption and instability. These factors make SFERS staff comfortable that Telecom Italia follows the proper procedures when interacting with Sudanese government entities.

Volkswagen

Volkswagen manufactures and sells automobiles primarily in Europe, North America, South America, and the Asia-Pacific. The company covers four industries: Passenger Cars and Light Commercial Vehicles, Commercial Vehicles, Power Engineering, and Financial Services. Volkswagen International Finance NV issues capital securities on behalf of its parent, Volkswagen AG.

Volkswagen is involved in Sudan through various subsidiaries. MSCI reports that subsidiary MAN SE is a wholly owned subsidiary. The company sells trucks and after-sales services through Neilan Motors, a private company based in Khartoum. MAN also has agreements with Sudanese companies for the production and sale of its vehicles in Sudan. These agreements include one with Giad Automotive, a state-owned vehicle manufacturer.

Previously the German government took action against MAN SE preventing export of trucks to Sudan due to military use. However, as Volkswagen is currently permitted to sell vehicles in Sudan through MAN SE, which would not have happened unless safeguards had been put in place. Staff will follow up with Volkswagen to confirm that safeguards have been updated and assured.

The company was also a majority-owner of Traton AG, which had operations in Sudan through Scania AB which sells trucks, buses, engines, spare parts and provided after sales services in Sudan through Bashir Motors Company, a local third party agent. Another third-party Sudan based company Sadig International, was a supplier parts and Elsafwa Automobile, a Khartoum-based third-party distributor of vehicles. Volkswagen acquired MAN SE's Power Engineering business in 2018 which included a 76 percent interest in Renk AG, 100 percent of MAN Energy Solutions, and 100 percent of MAN Energy Solutions USA.

While Volkswagen has experienced recent scandals, they do have a set of governance and controls policies. These policies include an extensive Guideline for Anti-Corruption.¹⁰⁷

¹⁰⁵https://www.gruppotim.it/content/dam/telecomitalia/documents/Sostenibilita/en/Policies_ENG/policy%20diritti%20umani-eng.pdf

¹⁰⁶ <https://www.gruppotim.it/en/sustainability/business-fundamentals/ethics/anti-corruption-commitment.html>

¹⁰⁷https://www.volkswagenag.com/presence/konzern/documents/leitfaden_antikorruption_englisch_digital_einzelseiten.pdf