



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

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State Treasurer of the State of Michigan Compliance with Divestment Acts

The State Treasurer for the State of Michigan serves as the investment fiduciary of the retirement systems for state employees, public school employees, Michigan State Police officers, and judges (collectively the “State of Michigan Retirement Systems” or “SMRS”). The State Treasurer also is delegated investment responsibilities for a number of other trusts and accounts created by statute and managed by the Bureau of Investments. These duties charge the State Treasurer with investing public monies on behalf of those retirement systems and entities so as to achieve maximum returns for shareholders and beneficiaries. The Bureau of Investments acts as the arm of the State Treasurer in this endeavor, investing in accordance with principles and guidelines embodied in state statutes and acting solely in the interest of the participants and beneficiaries. Investments are managed both internally and externally. Any investments made outside the boundaries of these laws are unauthorized.

Michigan law prohibits the State Treasurer from investing public monies in companies doing business in countries designated as a state sponsor of terror by the United States Secretary of State. Currently, the following countries are designated state sponsors of terror: Iran, Sudan, and Syria. The divestment laws called for immediate divestment from companies doing business in Iran and Sudan with divestment from Syria beginning January 1, 2012. These requirements are contained in the Divestment From Terror Act (“Divestment Act”), MCL 129.291 *et seq*, and in the Public Employee Retirement System Investment Act (“Investment Act”), MCL § 38.1133c and MCL § 38.1133d (together with the Divestment Act, the “Acts”).

Together, the Acts apply to the following retirement systems and funds overseen by the State Treasurer: (1) Michigan State Police Retirement System, (2) Michigan Judges’ Retirement System; (3) State Employees’ Retirement System; (4) Michigan Public School Employees’ Retirement System; (5) Michigan Veterans’ Trust Fund, (6) Surplus Funds Act, (7) 21st Century Jobs Trust Fund; (8) Children’s Trust Fund; (9) McCauley-Traxler-Law-Bowman-McNeely Lottery Fund, and (10) various funds and trusts created under Section 503b of the Natural Resources and Environmental Protection Act, MCL § 324.503b.

Additionally, the following are also subject to the divestment requirements: (1) the Board of Trustees of a community college subject to the Community College Act of 1966; MCL § 389.142(4); (2) the Board of Directors of the Michigan Education Trust; MCL§ 390.1429(5); and (3) the Board of the Michigan Strategic Fund under the Michigan Strategic Fund Act, MCL § 125.2007a.

Under the Acts, the Bureau of Investments must quarterly review its internal and external holdings in all companies to ensure no public monies are invested in companies engaged in active business operations in state sponsors of terror. The Bureau of Investments accomplishes this task by contracting with IW Financial, a third-party vendor that screens companies using criteria contained in the Acts. Companies that fall within the statutory factors are designated as scrutinized for having either active or inactive business operations in the state sponsor of terror. The Acts permit investments in companies with inactive business operations so long as the company's actions remain inactive, which means the company holds property in the country but is not using the property to generate income. Investments in companies with active business operations are prohibited.

Consistent with the Acts, the Bureau of Investments must initiate engagement with companies that have active or inactive business operations in those countries. Engagement with companies that have inactive business operations occurs semiannually.

Engagement with companies with active business operations occurs each quarter following creation of the scrutinized companies list. The company has 90 days after receiving the first engagement letter to cease business operations, develop a substantial plan of action to cease business operations, or convert its active business operations to inactive. Failure to do so will result in divestment. The Acts provide a divestment schedule requiring that the Bureau of Investments divest at least 50 percent within nine months following the company's most recent appearance on the scrutinized company list and 100 percent within 15 months following the company's most recent appearance on the list.

In addition to the engagement and divestment mandates, the Acts also impose reporting requirements. In compliance with the provisions of the Acts, the Bureau of Investments must compile and file an annual report to the Legislature summarizing divestment activities (a copy of this report is sent to the United States presidential special envoy to Sudan) and periodically update the Bureau of Investment's web site showing the following: all investments sold, redeemed, divested, or withdrawn in compliance with the Acts; all prohibited investments made under the Acts; and progress made with respect to new private market funds. Investment Personnel meet the private market requirement by inquiring about a fund's planned activities in companies with active business operations in state sponsors of terror when conducting due diligence. The Bureau of Investments monitors its private market investment personnel to ensure that these questions are asked and answered before new private investments are pursued. In compliance with the Acts, investments in funds with planned activities involving companies with active business operations in state sponsors or terror will be discouraged.

The Bureau of Investments continues to work with its vendor to ensure it receives accurate scrutinized company lists and that no prohibited investments are made.

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