

ALASKA LEGISLATURE COMMITTEE FILES 1900-1900 00/2

3740 HSTA HCR 17 (FILE 4)

HOUSE STATE AFFAIRS COMMITTEE

SEPTEMBER 10, 1984

9:00 am

CALENDAR: HCR 17 "Relating to State Investments in Companies Doing Business With the Republic of South Africa"

PRESENT: Representative Katie Hurley, Rep. "Red" Boucher, Rep. Mike Navarre, Rep. Virginia Collins, Rep. Jenkins & Rep. Mike Miller (in Juneau).

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Jeanne Larson
Rep. Pat Pourchot's Office

Johnny Ellis
Rep. Don Clocksin's Office

Michael D. Haidt
9101 Brayton Drive
Anchorage, AK 99507

TAPE 11 SIDE A

Rep. Hurley opened the meeting at 9:12 am in Anchorage and recognized the members of the committee present along with Rep. Don Clocksin and Senator Vic Fischer and Senator Joe Josephson.

Rep. Clocksin testified.

Senator Fischer

Discussion Boucher and Fischer

Karen Carlisle testified.

Pat Wellington representing the Public Employees Retirement Board, testified.

TAPE 11 SIDE B

Rep. Boucher questioned Mr. Wellington.

Sen. Fischer commented.

Senator Josephson question.

Senator Fischer.

John Harrington, President of Working Assets Money Fund, testified.

TAPE 2I SIDE A

Harrington concluded testimony.

Rep. Boucher questioned Mr. Harrington.

Rep. Clocksin questioned Mr. Harrington.

Senator Fischer questioned Mr. Harrington.

Reverend Dick Madden testified (see written testimony)

Jane Angvik, chair of the Anchorage Assembly, testified (see written testimony).

TAPE 2I SIDE B

Hugh Malone, representing the Alaska Permanent Fund Corporation testified.

Rep. Boucher commented.

Rep. Clocksin questioned Mr. Malone.

Senator Fischer questioned Mr. Malone.

TAPE 3I SIDE A

Senator Fischer question Mr. Malone.

Eleanor Andrews, Commissioner of the Department of Administration, testified via teleconference from Juneau (see letters).

Rep. Boucher questioned Commissioner Andrews.

Senator Fischer questioned Commissioner Andrews.

Denise Woods testified on behalf of herself and her partner Anastasia.

Hank Ostrosky testified.

Rep. Hurley announced a lunch recess at 12:33 pm. until 1:30 pm.

Rep. Hurley reconvened the meeting at 1:30 pm.

John Hammer testified.

Senator Fischer questioned Mr. Hammer.

Dr. Lawrence Weiss testified.

TAPE 3I SIDE B

Dumisami Kumalo, Project Director of the American Office on Africa testified via teleconference from New York.

Senator Fischer questioned Mr. Kumalo.

Rep. Boucher reads into the record a letter received from Christine Joelson, Consul, South African Consulate General's Office in Berkeley, California.

Mary Nordale, Commissioner of the Department of Revenue testified via teleconference from Juneau.

TAPE 4I SIDE A

Commissioner Nordale continued testimony.

Senator Fischer questioned Commissioner Nordale.

RECESS

Louis Overstreet, representing the Alaska Black Caucus testified.

Rep. Jenkins arrived at 3:05 pm.

David Roussou testified.

TAPE 4I SIDE B

Mr. Roussou continued testimony.

Rep. Boucher questioned Mr. Roussou.

Paula Davis testified.

Rep. Boucher questioned Ms. Davis.

TAPE 5I SIDE A

Marion Butcher testified.

Rep. Navarre questioned Ms. Butcher.

Charles McGee testified.

Ron Zobel testified.

Mary Ratcliff testified.

Willie Ratcliff testified.

Rep. Jenkins questioned Mr. Ratcliff.

Curtis Nestigard testified.

Rep. Boucher commented.

TAPE 5I SIDE B

Rep. Boucher and Mr. Nestigard discussion.

Michael Haidt testified.

Senator Fischer questioned Mr. Haidt.

Mrs. Paul Glover testified.

Rep. Hurley read into the record a letter received from Dennis Holway.
(See letter.)

Rep. Hurley adjourns meeting at 5:25 pm.



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

January 31, 1985

MEMORANDUM

TO: Representative Don Clocksin

FROM: Jay Livey *JL*
Legislative Analyst

RE: South Africa: Human Rights and Investments
Research Request 85-141 (Preliminary Report)

Johnny Ellis of your staff asked that we provide you with an update of the human rights situation in South Africa and describe the effect of United State's policy on that situation.

The Republic of South Africa has recently restructured its Parliament by adding two more chambers: one for representatives of mixed races and one for representatives of Asian races. The white chamber contains 166 members, the mixed race 80 members and the Asian chamber 40 members. In addition, the constitution expands the rights of the Asian and mixed race populations.

Because the constitutional changes have recently occurred, it is difficult to assess their effect on human rights in South Africa. One view is that although these reforms are minor, they indicate a step toward expanded freedom for the nonwhite population. Other observers do not see the new constitution as a document that indicates any real change from past policies. Supporters of this viewpoint note that the powers given Asian and colored (mixed race) parliamentary chambers are considerably different than the powers reserved for the white chamber. For example, the the white parliament has the power to veto actions of the other two parliaments and the prime minister can veto actions of the white parliament.

According to Jerry Herrman of the American Friends Service Committee, not only does the parliament continue to exclude blacks, but during the parliamentary elections that established the current membership, some Asian and colored groups attempted to promote a boycott of the election. Some sources report voter turnouts as low as 25 percent for these two groups.

In spite of these political changes, the South African government still denies blacks the right to own land in areas that are reserved for

Representative Clocksin
January 31, 1985
Page Two

whites. In addition, Rich Knight, of the American Committee on Africa, reports that the government continues to pursue its policy of relocating black-owned communities to the areas currently reserved for black residence.

Mr. Herrman also expressed the opinion that a general destabilization of Southern Africa is occurring as a result of the policies of South Africa. He claims that the number of cases of sabotage and insurgent raids into South Africa from neighboring countries is on the increase. In return, South Africa is increasing pressure on these countries to take positive steps to stop these incursions. In addition, South Africa continues to occupy Namibia. The government of South Africa claims that this occupation is in response to the presence of Cuban soldiers in Angola.

According to both Mr. Herrman and Mr. Knight, the current United States policy towards South Africa is one of muted opposition. In general, both gentlemen felt that the United States has been less vocal recently in denouncing apartheid policies in South Africa. Mr. Knight feels that one reason for this may be the security situation in the region. He notes that the United States has toned down its criticism of South Africa's Namibia policy, probably in response to the presence of Cuban troops in Angola. Mr. Knight was also of the opinion that the presence of Cuban troops has resulted in relaxed regulations concerning the United States arms embargo of South Africa.

I hope that this information is helpful. You also asked for information on investments in South Africa. I expect to provide that information by February 11.

JL



Alaska Permanent Fund Corporation
Pouch 4-1000 Juneau, Alaska 99802
TEL 907/465-2047 TLX 099-46-323

January 24, 1986

The Honorable Katherine Hurley
Chair
House State Affairs Committee
State Capitol
P.O. Box V
Juneau, Alaska 99811

Dear Representative Hurley:

Per your staff request earlier this week from Lori Anderson, please find attached the information you requested regarding South Africa divestment. I have also enclosed additional material which you may find useful:

1. South Africa handouts from the Board of Trustees meeting, January 13, 1986. (Please note, I have substituted updated information regarding:
(a) U.S. corporations that do business in South Africa; and
(b) U.S. companies having direct investments in South Africa and which are registered to do business in Alaska.)
2. Minutes of the Board of Trustees meeting, December 9, 1985.
3. South Africa handouts from Board of Trustees meeting, December 9, 1985.
4. Minutes of the Board of Trustees meeting, November 11, 1985.
5. Rankings from The Africa Fund, dated June 1985, of U.S. companies and banks in South Africa, by number of employees, by amount of investment, and by amount of loans outstanding.
6. Copies for all the committee members of a booklet from the National Legal Center For The Public Interest entitled "Disinvestment: Is It Legal? Is It Moral? Is It Productive? An Analysis of Politicizing Investment Decisions". (Please take special note of the article by Roy A. Schotland on page 31.)

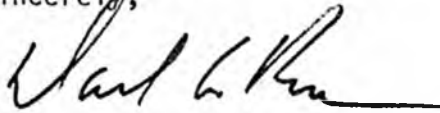
Finally, staff is presently compiling a new listing as of December 31, 1985, of all stocks the Permanent Fund owns in U.S. companies doing business in South

Representative Katherine Hurley
January 24, 1986
Page 2

Africa. This will be available early next week, and I will forward a copy to you.

If there is anything else we can provide, please let me know.

Sincerely,

A handwritten signature in cursive script, appearing to read "David A. Rose", with a horizontal line extending to the right.

David A. Rose
Executive Director

DAR:JK:bm
attachments



Alaska Permanent Fund Corporation

Pouch 4-1000 Juneau, Alaska 99802

TEL 907/465-2047 TLX 099-46-323

M E M O R A N D U M

DATE: January 13, 1986

TO: Trustees

FROM: Executive Director

SUBJECT: South Africa

For your information, I am forwarding additional information regarding the South Africa divestment question.

1. A list of the ²⁶⁶~~284~~ companies identified as having direct investments in South Africa; it is estimated that approximately 6,000 other companies trade within that country.
2. A list of the ⁹⁵~~102~~ companies having direct investments in South Africa AND which are registered with the Alaska Department of Commerce and Economic Development to do business in Alaska.
3. Two lists which depict the level of investment--in terms of dollars and as a percent of total assets--of U.S. companies in South Africa.
4. Executive Summary of the Impact of South Africa-Related Divestment on Equity Portfolio Performance, IRRC, January, 1985.
5. Department of Revenue reply to Representative Hurley's request for information (extract).

DAR:bm
attachments



Alaska Permanent Fund Corporation

Pouch 4-1000 Juneau, Alaska 99802

(907) 465-2047 Telex 099-46-323

M E M O R A N D U M

DATE: January 9, 1986

TO: Dave Rose

FROM: Jim Kelly *JK*

SUBJECT: List of all U.S. corporations that do business in South Africa as of November 1985.

1. AM Int'l
2. AT&T
3. Abbott Labs
4. Accuracy Corp.
5. Air Express Int'l
6. Air Products & Chemical
7. Albany Int'l
8. Alexander & Alexander
9. Allegheny Int'l
10. Louis A. Allen Assoc.
11. Allis-Chalmers
12. Amdahl Corp.
13. American Brands
14. American Cyanamid
15. American Home Products
16. American Hospital Supply
17. American Int'l Group
18. American Standard
19. Amsted Industries
20. Applied Power
21. Armco
22. Ashland Oil
23. Assoc. Metals & Minerals
24. Automatic Switch Co.
25. Avery Int'l
26. Baker Int'l
27. Bandag Inc.
28. Ted Bates Worldwide
29. Bausch & Lomb
30. Baxter Travenol Labs
31. Beatrice Companies
32. Bechtel Group
33. Bell & Howell
34. Black & Decker
35. Borden Inc.
36. Borg-Warner
37. Born Inc.
38. Bristol-Myers
39. Buckman Labs
40. Bucyrus-Erie Co.
41. Bundy Corp.
42. Burroughs Corp.
43. Butterick Co.
44. CBI Industries
45. CBS Inc.
46. Cigna Corp.
47. CPC Int'l
48. Caltex Petroleum
49. Card Key Systems
50. Carman Industries
51. Carnation Co.
52. Cascade Corp.
53. Caterpillar Tractor
54. Champion Spark Plug
55. Chase Manhattan
56. Chesebrough-Ponds
57. Chicago Pneumatic Tool
58. Citicorp
59. Coca-Cola
60. Colgate-Palmolive

61. Columbus McKinnon
62. Continental Grain Co.
63. Control Data Corp.
64. Cooper Industries
65. Cooper Labs
66. Coulter Electronics
67. Crown Cork and Seal
68. Cummins Engine

69. D'Arcy MacManus
70. Dames & Moore
71. Dart & Kraft
72. Deere & Co.
73. Diamond Shamrock
74. Donaldson Co.
75. Dow Chemical
76. Dow Corning
77. Dr. Pepper
78. Dresser Industries
79. Du Pont
80. Dukane
81. Dun & Bradstreet
82. Duriron

83. Eastman Kodak
84. Eaton Corp.
85. Echlin Co.
86. Emery Air Freight
87. Emhart Corp.
88. Erico Inc.
89. Eriez Magnetics
90. Euclid Inc.
91. Exxon

92. FMC Corp.
93. Federal-Mogul
94. Ferro Corp.
95. Firestone
96. John Fluke
97. Fluor Corp.
98. Foote Cone
99. Ford Motor
100. Foster Wheeler
101. Franklin Electric
102. Fruehauf

103. GAF Corp.
104. GATX Corp.
105. GTE Corp.
106. Gates Rubber Co.
107. Gelco Corp.
108. General Electric
109. General Motors
110. General Signal

111. A.J. Gerrard
112. Getz Corp.
113. Gillette Co.
114. Goodyear
115. W.R. Grace
116. Grey Advertising
117. Grolier Inc.

118. Harnischfeger Corp.
119. Harper Group
120. Hay Assoc.
121. Hayes/Hill Inc.
122. Healthdyne Inc.
123. Heinemann Electric Co.
124. Walter E. Heller
125. Hewlett-Packard
126. Honeywell Inc.
127. Hoover Co.
128. Houdaille Industries
129. Hughes Tool Co.
130. Hydro-Air Engineering

131. IMS Int'l
132. Ingersoll-Ran
133. IBM
134. Itergraph
135. Int'l Flavors
136. Int'l Mineral & Chemical
137. ITT
138. Interpublic Group

139. JWT Group
140. Johnson & Johnson
141. S.C. Johnson
142. Johnson Controls
143. Joy Manufacturing

144. Kellogg Co.
145. Kendavis Industries
146. Kimberly-Clark
147. Koppers

148. L&M Radiator
149. Estee Lauder
150. Leco Corp.
151. Libby-Owens-Ford
152. Eli Lilly
153. Locite Corp.
154. Longyear Co.
155. Lubrizol Corp.
156. Lykes Bros. Steamship

157. MacMillan Inc.
158. Maremont Corp.

- | | |
|------------------------------|-------------------------------|
| 159. Marriot Corp. | 208. H.H. Robertson |
| 160. Marsh & McLennan | 209. A.H. Robins Co. |
| 161. McLean Industries | 210. Rohm and Hass |
| 162. McGraw-Hill | |
| 163. Measurex | 211. SPS Technologies |
| 164. Medtronic Inc. | 212. Salsbury Labs |
| 165. Merck & Co. | 213. Schenectady Chemicals |
| 166. Metallurg Inc. | 214. Schering-Plough |
| 167. Midland-Ross | 215. Schlumberger |
| 168. Millipore Corp. | 216. Scovill Inc. |
| 169. Mine Safety Appliances | 217. Joseph E. Seagram & Sons |
| 170. Minn. Mining & Mfg. | 218. G.D. Searle |
| 171. Mobil Corp. | 219. Sentry Corp. |
| 172. Mohawk Data Sciences | 220. Sigmaform |
| 173. Monsanto Co. | 221. Simplicity Pattern |
| | 222. Skok Systems |
| 174. NCNB Corp. | 223. Smithkline Beckman |
| 175. NCR Corp. | 224. Sperry Corp. |
| 176. Nabisco | 225. Square D Co. |
| 177. Nalco Chemical | 226. Squibb Corp. |
| 178. Nat. Education | 227. W.R. Stamler |
| 179. Nat.-Standard | 228. Standard Oil(Ohio) |
| 180. Nat. Starch & Chemical | 229. Stanley Works |
| 181. Nat. Utility | 230. L.S. Starrett |
| 182. Newmont Mining | 231. Staufer Chemical |
| 183. A.C. Nielsen | 232. Steiner Corp. |
| 184. Norton Co. | 234. Sterling Drug |
| | 235. Stone & Webster |
| 185. Ogilvy & Mather | 236. Sullair Corp. |
| 186. Olin Corp. | 237. Sun Chemical |
| 187. Opico Inc. | 238. Sybron Corp. |
| 188. Owens-Illinois | |
| | 239. Tambrands |
| 189. Parker Hannifin | 240. Tenneco |
| 190. Parker Pen | 241. Timken Co. |
| 191. Pennwalt Corp. | 242. Titanium Industries |
| 192. Pfizer Inc. | 243. Tokheim Corp. |
| 193. Phelps Dodge | 244. Trane Co. |
| 194. Phillips Petroleum | 245. Trans World Corp. |
| 195. Precision Valve | 246. Twentieth Century-Fox |
| 196. Preformed Line Products | 247. Twin Disk Inc. |
| | |
| 197. Quaker Chemical | 248. UAL Inc. |
| | 249. Union Carbide |
| 198. Raychem | 250. Uniroyal Inc. |
| 199. Raytheon Co. | 251. U.S. Gypsum |
| 200. Reader's Digest | 252. U.S. Steel |
| 201. Redland Braas | 253. United Technologies |
| 202. Revlon Inc. | 254. Upjohn Co. |
| 203. Rexnord Inc. | 255. Utah Int'l |
| 204. R.J. Reynolds | |
| 205. Reynolds & Reynolds | 256. VF Corp. |
| 206. Richardson-Vicks | 257. Van Dusen Air |
| 207. Robbins Co. | |

U.S. Corporations/Page 4

- | | |
|----------------------------|------------------------|
| 258. Warner Communications | 263. Wilbur-Ellis |
| 259. Warner Electric | 264. John Wiley & Sons |
| 260. Warner-Lambert | 265. Wynn's Int'l |
| 261. Wean United | |
| 262. Westinghouse | 266. Xerox Corp. |

JK/jm

SOURCE: Foreign Investment in South Africa by IRRC, as
in Directory Update of November 1985.

IRRC

South Africa Review Service

DIRECTORY UPDATE

November 1985

The format of this issue of Directory Update has been changed to include two new sections in addition to the usual entries updating the status of U.S. companies' and banks' involvement in South Africa.

The first section presents five lists, which are cumulative since IRRC published its December 1984 directory, Foreign Investment in South Africa. The five lists cover the following categories:

- U.S. companies that should be deleted from the directory
- U.S. companies that should be added to the directory
- U.S. companies that have signed the Sullivan principles (since the publication of the directory)
- U.S. companies that are no longer Sullivan signatories, and
- U.S. banks that have been listed in the Directory Updates.

The section is designed to assist subscribers who rely on Foreign Investment in South Africa in reviewing their portfolios to keep that information current.

The second new section, which will be presented at the end of each quarterly issue of Directory Update, is an index, also cumulative from IRRC's publication of Foreign Investment in South Africa, of all the companies that have been listed in the Directory Updates.

Both new sections list the company or bank name, followed by the date of the quarterly Directory Update issue or issues in which it was discussed. Listings that are followed by an asterisk (*) indicate companies and banks that are discussed in the current issue.

SECTION I: CUMULATIVE DIRECTORY CHANGES

Companies that should be deleted from directory

AMR*	International Harvester (8/85)*
American Express*	International Staple and Machine*
BBDO International*	John Wiley & Sons*
Blue Bell (3/85)	Martin Marietta*
Boeing (8/85)	Motorola*
Celanese*	Oak Industries (3/85, 5/85)
City Investing (5/85)	Pan American World Airways (5/85)
Computer Sciences*	Pepsico (8/85)
Continental Corp. (3/85)	Perkin-Elmer (3/85)
Deltak (8/85)	Phibro-Salomon*
Do-ALL (8/85)	Singer Co. (8/85)
Ecolaire (8/85)	Smith International (8/85)
Engelhard*	Tidwell Industries (8/85)
Flow General*	Wang Laboratories (5/85)
General Foods (8/85)	Wendy's (no longer has franchise)*
Henkel*	West Point-Pepperell (8/85)
Illinois Tool Works*	

Companies that should be added to directory

AT&T (5/85)	Owens-Illinois (5/85)
Amsted Industries*	Raychem*
American Brands (8/85)	Reynolds & Reynolds (5/85)
American Standard (8/85)	Joseph E. Seagram & Sons*
Ashland Oil (3/85)	Schlumberger (5/85)
Duriron (5/85)	L.S. Starrett (3/85)
Intergraph (8/85)	Utah International*
Koppers (3/85)	

Companies that have signed (or re-signed) the Sullivan principles

A.H. Robins (5/85)	Amdahl (5/85)
Air Products & Chemicals*	American Airlines (8/85)
Alexander & Alexander (3/85)	American Brands*
Allegheny International*	American Hospital Supply (3/85)

The Directory Update is published quarterly for subscribers to the South Africa Review Service by the Investor Responsibility Research Center, Suite 900, 1319 F St., N.W., Washington, DC 20004. Telephone (202) 833-3727.

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REPORTERS: Cathy Bowers, Micheline Tusenius
ASSISTANT TO THE EDITOR: Gloria Henning
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American Standard*
 Avery International*
 Baltimore Aircoil*
 Bechtel Group*
 Bell & Howell (8/85)
 Black & Decker (3/85)
 Bucyrus-Erie (3/85)
 Champion Spark Plug (8/85)
 Chesebrough-Pond's*
 Combustion Engineering (8/85)
 Coulter Electronics*
 Crown Cork & Seal (3/85)
 Dow Corning (5/85)
 Dukane (5/85)
 Emery Air Freight*
 Emhart*
 Foote, Cone & Belding Communications*
 GAF*
 GATX*
 GTE (5/85)
 Gelco CTI Container*
 General Signal*
 Grolier International*
 Harnischfeger*
 Harper Group*
 Ingersoll-Rand (3/85)
 Intergraph (8/85)
 International Playtex (8/85)
 JWT Group*
 S.C. Johnson & Son*

Kimberly-Clark*
 Leco*
 Sara Lee*
 Loctite (5/85)
 Macmillan*
 Martin Marietta (3/85)
 Medtronic*
 Midland-Ross (5/85)
 Millipore (5/85)
 J.P. Morgan (5/85)
 National Education Corp. (5/85)
 Ogilvy & Mather (5/85)
 Owens-Illinois*
 Pan American World Airways (3/85)
 Revlon (3/85)
 Joseph E. Seagram & Sons*
 G.D. Searle (3/85)
 Simplicity Pattern*
 Singer (3/85)
 Skok Systems (5/85)
 Square D Co.*
 Stanley Works*
 Stone & Webster Engineering Services*
 Tokheim*
 Twin Disk*
 VF Corp.*
 Wang Laboratories (8/85)
 Washington Times (3/85)
 Wilson Learning Center (5/85)

Companies that are no longer Sullivan signatories

Chicago Bridge & Iron Co.
 D'Arcy MacManus & Masius Worldwide Inc.
 International Harvester (8/85)
 Measurex (8/85)

Sentry Assurance (5/85)
 Trane Co.
 Westin Hotel Co.

Banks listed in Directory Update

American Express*
 Bank of Boston (5/85)
 Bank of New England (8/85)*
 Bank of New York*
 CBT: See Bank of New England
 Chase Manhattan (8/85)
 Citicorp (3/85)
 Citizens and Southern National (5/85)
 Corestates Financial Corp.*
 First Bank System*
 First Chicago (3/85)
 First City Bancorporation*
 First Pennsylvania (8/85)

First Wisconsin Corp.*
 Fleet National Bank*
 Harris Bancorp (8/85)
 Manufacturers Hanover (3/85)
 Mellon National (8/85)
 Midlantic Banks*
 J.P. Morgan (Morgan Guaranty Trust)
 (3/85, 5/85)
 NCNB (3/85)*
 Northern Trust Co.*
 Norwest (8/85)*
 PaineWebber (5/85)
 Republic New York Corp.*

RepublicBank Corp.*
Seafirst*
Security Pacific Corp.*

Sovran (5/85)
United Virginia Bankshares*
Wells Fargo (3/85)

SECTION II: DEVELOPMENTS SINCE THE LAST DIRECTORY UPDATE

U. S. Companies

● **CHANGES IN SULLIVAN SIGNATORY STATUS:** Thirty-five companies have signed the Sullivan principles since the August Directory Update and four companies have been dropped from the program for not reporting.

New signatories:

Air Products & Chemicals Inc.
Allegheny International Inc.
American Brands Inc.
American Standard Inc.
Avery International Inc.
Baltimore Aircoil Co.
Bechtel Group Inc.
Chesebrough-Pond's Inc.
Coulter Electronics Inc.
Emery Air Freight Corp.
Enhart Corp.
Foote, Cone & Belding Commu-
nications
GAF Corp.
GATX Corp.
Gelco CTI Container Corp.
General Signal Corp.
Grolier International Inc.
Harnischfeger Corp.
Harper Group
JWT Group Inc.
S.C. Johnson & Son Inc.
Kimberly-Clark Corp.
Leco Corp.
Sara Lee Corp.
Macmillan Inc.
Medtronic Inc.
Owens-Illinois Inc.
Joseph E. Seagram & Sons Inc.
Simplicity Pattern Co. Inc.
Square D Co.
Stanley Works
Stone & Webster Engineering
Services Inc.
Tokheim Corp.
Twin Disk Inc.
VF Corp.

Signatories that have been dropped:

Chicago Bridge & Iron Co.
D'Arcy MacManus & Masius Worldwide
Inc.
Trane Co.
Westin Hotel Co.

● AMR's subsidiary, American Airlines, closed its airline ticket office in Johannesburg, effective Nov. 1, 1985, a recent letter to IRRC confirmed. There are now no AMR employees in South Africa.

● AMERICAN EXPRESS: See listing under commercial banks section.

● AMERICAN AIRLINES: See AMR.

● AMSTED INDUSTRIES purchased Baltimore Aircoil from Merck in May, 1985. Baltimore Aircoil was a Sullivan signatory under the Merck umbrella and, after the sale, it signed the Sullivan principles individually. By acquiring 100 percent equity in Baltimore Aircoil, Amsted Industries now has a presence in South Africa. Merck continues to operate in South Africa through MSD (Pty.) Ltd., a wholly owned subsidiary.

● APPLE COMPUTER announced in early August its intention to stop selling its personal computers in South Africa. The decision to withdraw from South Africa was based "entirely on political reasons." A company representative told IRRC that "given the apartheid practices, we could not continue selling there." Base 2, the South African distributor of Apple computers, was told in August of the decision and that Apple would continue its obligations in South Africa until Oct.

31 only. Apple never had any direct investment, plant, office or employees in South Africa.

- BAUSCH & LOMB sold its Arlabs subsidiary in 1984 to the U.S. office of Applied Research Labs.

In Foreign Investment in South Africa, the other Bausch & Lomb subsidiary was listed as Bausch & Lomb Soflens. Now known as Bausch & Lomb Visioncare South Africa, it is a sales and marketing operation employing approximately 25. It is not involved in manufacturing.

- BBDO INTERNATIONAL has transferred the entire ownership interest of its South African subsidiary to local managers. According to The New York Times, financial losses from the South African subsidiary were the main reason for the decision. Concern over "their image as a U.S. company doing business in South Africa" was not a factor in the decision, said the Times. BBDO International will maintain an operating presence in South Africa by entering into an associate agency agreement with Venture/BBDO, the newly independent South African operation.

- BALTIMORE AIRCOIL: See Amsted Industries.

- BEATRICE sold STP Corp. worldwide in July 1985, as noted in the August 1985 Directory Update. The buyer was Union Carbide and, according to a Carbide official, STP South Africa, listed as a Beatrice subsidiary in Foreign Investment in South Africa, was not part of the sale. IRRIC was unable to obtain further information from Beatrice on the dissolution of STP South Africa.

- BURROUGHS was inaccurately listed in Foreign Investment in South Africa as having "more than \$150 million" in assets in South Africa. In a recent letter to IRRIC, the company said the correct figure was \$20-40 million.

- CELANESE sold its sole asset in South Africa on Sept. 27, 1985. It

has not disclosed publicly to whom the subsidiary was sold. The reasons for the sale are business-related, a Celanese spokesman told IRRIC.

- COMPUTER SCIENCES CORP. recently sold its 20 percent minority ownership in Computer Sciences (Pty.) Ltd. of South Africa to Anglo American Corp., the South African conglomerate. The decision to sell was business-related, a company representative told IRRIC. Computer Sciences now has no financial interests in South Africa.

- EASTMAN KODAK recently acquired total ownership of Atex Systems South Africa (Pty.) Ltd. Located in Johannesburg, Atex Systems processes text needs of the publishing industry. The acquisition of Atex adds 17 new staff members to the Kodak team in South Africa.

Kodak also acquired 90 percent stock ownership of the California-based Verbatim Corp. in May this year. Verbatim, a leading maker of floppy discs for personal computers, has no plant in South Africa but sells its products there through Advance Promotions. Kodak has asked Advance Promotions, as Verbatim did, to verify in writing that no sales are made to the police, prisons, military or other agencies of the South African government.

- ENGELHARD closed its sole South African subsidiary in July 1985. The motivation for the closure, an Engelhard spokesman told IRRIC, was that "there was just not enough business--it was just not worth the overhead." Its South African sales had declined from 2 percent of global sales in 1983 to less than 1 percent in 1984. However, Engelhard will continue to sell its products in South Africa through independent salesmen and distributors.

- FLOW GENERAL closed its sole South African facility in January 1985. The reason for the closure was "declining business opportunity," according to a letter the company sent IRRIC.

● HENKEL CORP., the privately held Minneapolis company, has no direct investments in South Africa, a company spokesman told IRRC. Henkel's West German parent company, Henkel KGaA, is involved in South Africa. Further details on this involvement are not available.

● ILLINOIS TOOL WORKS notified IRRC that its board of directors authorized, on Oct. 18, 1985, the discontinuation of the firm's South Africa operations, effective the end of this year.

● INTERNATIONAL HARVESTER hopes the sale of its one remaining South African subsidiary, International Harvester Co. of South Africa, will be completed by mid-November. In terms of the sale, Northern Engineering Industries, a South African company, will hold the only South African franchise for International Harvester heavy vehicles and parts. Once the franchise agreement is completed, International Harvester will have no remaining equity investments in South Africa. Its South African agricultural assets were sold to the Tenneco subsidiary, J.I. Case, earlier this year. (See the May and August 1985 issues of Directory Update.)

● INTERNATIONAL STAPLE AND MACHINE has never had any direct investment in South Africa. The company recently informed IRRC that its relationship with African Commerce is strictly that of supplier. International Staple has made no sales to AFCOM in 1985 but, in 1984, parts valued at \$3,000 were sold in support of equipment purchased years earlier.

● SARA LEE CORP., a new signatory of the Sullivan principles, was not listed in Foreign Investment in South Africa. Sara Lee spokesmen who deal with its South African operations were not available when IRRC asked the Chicago-based company for details of its activities in South Africa.

● MARTIN MARIETTA no longer has any operations in South Africa, a company spokesman told IRRC. It owned Master Builders, which in turn owned 50 percent of the South Africa-based company, Embecom. In April 1985, Saambou, a South African company, bought Master Builders from Martin Marietta; Embecom was included in the sale.

● MERCK: See Amsted Industries.

● MOTOROLA sold its South African plant to Allied Technologies (Altech), South Africa's leading electronics and telecommunications group, on Oct. 9, 1985. The reason for the sale was business-related, a Motorola spokesman told IRRC. Manufacturing licenses were concluded for the major products produced by Motorola South Africa, and Altech is also to continue servicing Motorola products. Altech, which distributed Motorola's semiconductor products in South Africa, also became a non-exclusive distributor for Motorola's information systems products.

● PHIBRO-SALOMON, the securities and commodities brokerage that was identified as the 12th largest corporation in the United States in 1984, announced on Aug. 21, 1985, that it would end its operations in South Africa and would close its Johannesburg office. Phibro is the largest U.S. company to have announced its withdrawal from South Africa.

Concern about the divestment campaign appeared to be a major reason for the company's action, according to The New York Times. A Dean Witter Reynolds stock analyst quoted in the article said, "Since the amount of business from South Africa was minimal, it was important [for Phibro] to make the decision, to broaden the appeal of its shares for all institutional investors." The Times also quoted an officer of Phibro, who said, "the company's other offices would not buy precious metals known to be mined in South Africa." IRRC was unable to confirm this with the company.

The company recently told IRRC that the Johannesburg office would be closed by Dec. 31, 1985, as originally scheduled.

● RAYCHEM of Menlo Park, Calif., has a wholly owned sales company in South Africa. Raychem's South African operations represent 0.3 percent (or \$1.85 million) of worldwide assets, 0.7 percent (or \$4 million) of worldwide sales and 0.4 percent of worldwide profits. The major Raychem products sold in South Africa are telecommunications accessories, essentially wires and cables.

Raychem's major investment in South Africa has been a small warehouse close to Johannesburg (at Olifantsfontein) for the sales company. The company also has sales offices in Durban and Cape Town, each of which is staffed by two. The other 20 of the 24 people employed by Raychem work in the Johannesburg office. Eight Raychem employees are black South Africans.

Although not a signatory, Raychem says it "fully supports and adheres to" the Sullivan principles. Four of the eight black employees have received interest-free home loans through the company.

● JOSEPH E. SEAGRAM & SONS, a recent signatory to the Sullivan principles, did not appear in Foreign Investment in South Africa. It told IRRC that its sole operation in South Africa is a small office, based in Johannesburg, which coordinates the marketing of its distilled spirits products throughout Southern Africa. Five people, one black and four whites, are employed in this office. South African sales comprise \$1 million of Seagram's worldwide total of \$5 billion. The company's only assets in South Africa are the office equipment; it rents its office space.

Seagram decided to sign the Sullivan principles following urging by Congress and the Reagan administration that all U.S. companies in South Africa do so.

● UTAH INTERNATIONAL, a large U.S. mining firm and a subsidiary of the Australian company, Broken Hill, has a South African subsidiary, a company spokesman told IRRC. Southern Sphere Mining and Development Co., located in Randburg, is essentially a mineral exploration firm. It employs 64 people, of whom 23 are black South Africans and 41 are whites.

Utah International received no net profits from its South African operations in 1984. It has a total of \$19 million in assets in South Africa, which a company spokesman estimated at 0.5 percent of Broken Hill assets worldwide. Most of Utah International's South African assets are in undeveloped coal property; the company also has Namibian mineral holdings which it is actively trying to sell. Utah International is not a signatory of the Sullivan principles.

● WENDY'S no longer has franchise operations in South Africa. It did have one South African franchisee in 1984. Company representatives would not disclose when the franchise arrangement was canceled.

● JOHN WILEY & SONS INC. sold its South African subsidiary, Wilson Learning SA (Pty.) Ltd., on Sept. 30, 1985, to the South African company, Southern Life Association Ltd. A company representative confirmed that John Wiley & Sons direct involvement in South Africa ended with the consummation of the sale.

● XEROX, which has a South African subsidiary, also has a presence in South Africa through its ownership of Versatec, a California company that manufactures computer peripheral equipment, printers, plotters and plotting software. Versatec sells its products in South Africa through Alphidata Ltd. Xerox purchased Versatec in December 1975.

Commercial Banks

● **AMERICAN EXPRESS** and its subsidiaries will no longer have offices or employees in South Africa after November 1985. American Express recently decided to close its Johannesburg office and instead base its Travelers Checque operations for South Africa in the United Kingdom. The South African bank, Nedbank, will continue to hold the American Express Card franchise in South Africa.

The American Express Bank has made no new loans to either the public or private sector in South Africa since 1984. Existing loans, running at roughly \$85 million, will not be extended.

● **THE BANK OF NEW ENGLAND** acquired CBT Corp. in June 1985, making CBT one of the bank's largest subsidiaries. The Bank of New England informed IRRC that neither it nor any of its affiliate banks have any loans outstanding to either the public or private sector in South Africa and has stated that no such loans will be made as long as apartheid remains in effect.

● **THE BANK OF NEW YORK** recently informed IRRC that it canceled lines of credit to two South African banks in August 1985. It simultaneously discontinued all lending to South African banks. The bank's policy of not lending to the South African public or private sector has been in effect since 1974.

● **CBT:** See Bank of New England.

● **CORESTATES FINANCIAL CORP.** recently told IRRC that it made new loans to South African private sector borrowers, including banks, after January 1985. However, shortly before the South African government imposed a debt moratorium on Sept. 1, it canceled all extensions of credit to such borrowers.

● **FIRST BANK SYSTEM** decided in July 1985 that it would no longer make credit available to South African pri-

vate borrowers, it reported in a recent letter to IRRC. The bank's exposure in South Africa comprises loans, bankers' acceptances and interbank deposits; the bank says it will not renew the loans when they are repaid.

● **FIRST CITY BANCORPORATION** does not make loans to the South African public sector or to private corporations under a policy adopted in April 1985. It does have correspondent relationships with private-sector banks and it has restricted these dealings in the light of the changed economic and political situation. In a recent letter to IRRC, the bank said it "is willing to finance short-term trade and export transactions when, in management's judgment, such transactions would benefit all of South Africa's people and generally are a direct result of U.S./South African trade."

● **FIRST WISCONSIN CORP.** changed its policy on extending credit to South African private corporations and banks on Aug. 21, 1985, in order to reduce its exposure in South Africa. The shift in policy, the bank informed IRRC, is from making loans to private corporations and banks to being very selective in choosing private borrowers to lend to.

● **FLEET NATIONAL BANK** recently told IRRC that it will no longer extend credit facilities to either public or private sector entities in South Africa and has no intention of extending such facilities in the foreseeable future. It has no outstanding loans to South Africa.

● **MIDLANTIC BANKS** general loan policy permits credit extensions to foreign banks as they relate to New Jersey area exports and imports, it reported in a recent letter to IRRC. Countries are rated under four classifications to determine what types of

credit are allowed. As of September 1985, South Africa was placed in the lowest category, which prohibits all credit extensions, including letters of credit.

- **NCNB**, which stopped making loans to the South African government and its agencies under a policy adopted in February 1985, is no longer making loans to the South African private sector, either. In a recent letter to IRRC, the bank said no new loans will be considered until all outstanding loans are repaid. Because of the South African debt moratorium, this is not likely to be soon.

- **NORTHERN TRUST CO.** has no loans outstanding nor commitments to make loans in South Africa, according to a letter the bank sent IRRC. The bank's policy prohibits it from lending to the South African government or its agencies, private sector corporations or banks.

- **NORWEST CORP.**, which allowed loans to private borrowers in South Africa until recently, notified its customers in South Africa in July that existing loans would not be renewed. Norwest told IRRC that its policy now is not to make loans to South Africa.

- **REPUBLIC NEW YORK CORP.** follows the policy of generally not underwriting securities for, or extending credit to, the South African or Namibian governments, it recently told IRRC. It will make exceptions for loans that will be used for educational purposes or to benefit all the people of South Africa.

- **REPUBLICBANK CORP.** no longer extends loans to the South African government or its agencies. A provision that permitted loans to public sector companies facilitating export sales of the bank's U.S. customers was eliminated on May 22, 1985.

According to a letter the bank re-

cently sent to IRRC, it will extend loans to the private sector where "the result is the enhancement of economic growth, job creation and the social welfare of all its people, regardless of race." RepublicBank argues that "social progress can be encouraged most effectively in a growing and stable economy, and by the continuing participation of American business in providing a role model for advancement."

- **SEAFIRST** changed its South Africa policy on Sept. 12, 1984, a bank representative told IRRC. Under the new policy, Seafirst will not lend to the South African private or public sectors or sell krugerrands. The bank has no outstanding South African loans or any investments in South Africa. The previous policy had allowed loans to South Africa if, in some way, such loans benefited the Pacific Northwest economy and if there were no connection with any of the repressive agencies of the South African government.

- **SECURITY PACIFIC CORP.** recently ended its extension of credit to South African private sector borrowers. The bank does have some outstanding private sector loans, it recently told IRRC. Overall, most of its past activity has been in trade financing and the recent deterioration in the South African economic climate has resulted in the bank closely monitoring its position.

- **UNITED VIRGINIA BANKSHARES** has had no loans outstanding to the South African government or its agencies since 1975, according to a recent press release. It also does not lend to South African private sector borrowers or to U.S. companies for the purpose of investing in South Africa. In the past, it occasionally engaged in trade-related financing but this is no longer the case. The bank has no trade-related financing outstanding.

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West Point-Pepperell (8/85)
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M E M O R A N D U M

DATE: January 24, 1986

TO: David A. Rose
Executive Director

FROM: Jim Kelly *JK*
Research & Liaison Officer

SUBJECT: List of all U.S. corporations that do business in South Africa
and Alaska

Listed below are the names of all U.S. corporations doing business in South Africa who are also registered with the state Department of Commerce & Economic Development to do business in Alaska. This information is correct as of November 1985.

- | | |
|-----------------------------|----------------------------|
| 1. AT&T | 21. Chase Manhattan |
| 2. Air Products & Chemicals | 22. Chicago Pneumatic Tool |
| 3. Alexander & Alexander | 23. Citicorp |
| 4. Allis-Chalmers | 24. Control Data Corp. |
| 5. American Brands | 25. Cooper Industries |
| 6. American Home Products | 26. Diamond Shamrock |
| 7. American Hospital Supply | 27. Dow Chemical |
| 8. American Standard | 28. Dresser Industries |
| 9. Armco | 29. Eastman Kodak |
| 10. Ashland Oil | 30. Eaton Corp. |
| 11. Bandag Inc. | 31. Emery Air Freight |
| 12. Bechtel Group | 32. Exxon |
| 13. Bell & Howell | 33. FMC Corp. |
| 14. Black & Decker | 34. Firestone |
| 15. Borg-Warner | 35. Fluor Corp. |
| 16. Burroughs Corp. | 36. Ford Motor |
| 17. CBS Inc. | 37. Foster Wheeler |
| 18. Cigna Corp. | 38. Fruehauf |
| 19. Carnation Co. | 39. GAF Corp. |
| 20. Caterpillar Tractor | 40. GATX Corp. |

U.S. corporations that do business in South Africa and Alaska
January 24, 1986
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41. GTE Corp.
42. Gelco Corp.
43. General Electric
44. General Motors
45. General Signal
46. Goodyear
47. W.R. Grace
48. Hewlett-Packard
49. Honeywell Inc.
50. Hughes Tool Co.
51. IBM
52. ITT
53. Ingersoll-Rand
54. Intergraph
55. Int'l Minerals & Chemical
56. Interpublic Group
57. Johnson Controls
58. Joy Manufacturing
59. Kimberly-Clark
60. Koppers
61. Longyear Co.
62. Marriott Corp.
63. Marsh & McLennan
64. Medtronic Inc.
65. Minn. Mining & Mfg.
66. Mobil Corp.
67. Monsanto Co.
68. NCR Corp.
69. Nalco Chemical
70. National Utility
71. Newmont Mining
72. Phelps Dodge
73. Phillips Petroleum
74. Raytheon Co.
75. Rexnord Inc.
76. R.J. Reynolds
77. Robbins Co.
78. Schlumberger
79. Scovill Inc.
80. Sperry Corp.
81. Standard Oil (Ohio)
82. Sterling Drug
83. Stone & Webster
84. Sun Chemical
85. Sybron Corp.
86. Union Carbide
87. Uniroyal
88. U.S. Steel
89. United Technologies
90. Upjohn Co.
91. Utah International
92. Van Dusen Air
93. Warner
94. Westinghouse
95. Xerox Corp.

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South Africa Review Service

VALUE OF SOUTH AFRICA ASSETS OF U.S. CORPORATIONS
HAVING DIRECT INVESTMENTS IN SOUTH AFRICA

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SOUTH AFRICA ASSETS AS A PERCENT OF TOTAL
ASSETS OF U.S. COMPANIES HAVING DIRECT
INVESTMENTS IN SOUTH AFRICA

January 1985

U.S. CORPORATIONS

Many of the U.S. companies operating in South Africa are household names. Of the 284 companies identified by IRRC as having direct investments in South Africa, 31 are among Fortune magazine's 1984 list of the 50 largest U.S. corporations and 57 are included among the top 100 companies on that list. Moreover, American companies operating in South Africa comprise a large percentage of several key industry sectors represented in the Standard & Poor's 500. For instance, 91 percent of the international oil companies listed in the S&P 500 have direct investments in South Africa, as do 90 percent of the office equipment companies, 89 percent of the drug companies, 88 percent of the chemical companies and 87 percent of the auto manufacturing companies.

From the U.S. point of view, American business involvement in South Africa is relatively small. At the end of 1983, for example, it accounted for slightly more than 1 percent of all American direct investment abroad. For most U.S. firms operating in South Africa, their investment there represents less than 1 percent of their total assets.

Within the South African economy, however, U.S. subsidiaries play a much larger role. American-owned companies control nearly one-half of South Africa's petroleum industry, 70 percent of the country's computer industry and about a third of South Africa's automobile industry.

INVESTMENT TRENDS IN SOUTH AFRICA

For 15 years, from 1966 to 1981, investment by U.S. companies in South African subsidiaries and affiliates steadily increased. From \$490 million in direct investments in 1966, U.S. companies had expanded their presence in South Africa to \$2.6 billion in assets by 1981. In the last two years, however, a combination of a declining South African economy, a change in government regulations that now make it easier to withdraw investments from South Africa and a stronger dollar have led to a drop in the value of the direct investments of U.S. companies in that country. According to U.S. Commerce Department figures, the value of American firms' investments in South African subsidiaries and affiliates stood at \$2.3 billion at the end of 1983, nearly 13 percent lower than the high point reached at the end of 1981.

At the same time, the average rate of return on these investments has been falling. From a 31 percent after-tax rate of return during 1980, an extremely good year for the

South African economy, American companies realized an average return of only 7 percent in 1982 and 1983.

COMPANY LISTINGS

This section of the IRRC Directory provides information on the 284 U.S. companies with direct investments in South Africa and/or Namibia. Direct investment is defined as a single U.S. company owning 10 percent or more of a South African subsidiary or affiliate. The 35 companies whose sole involvement in South Africa or Namibia is through licensing arrangements, local distributors, professional partnerships or a news bureau are listed in an appendix at the end of the Directory. The 41 companies that said they no longer have operations in South Africa also appear in an appendix at the end of the Directory.

Each U.S. parent company is listed alphabetically with its U.S. head office address. The following information is provided for each company:

- Sullivan signatory: Has the company signed the Sullivan principles of equal employment opportunity? An appendix to the Directory includes the text of the Sullivan principles.
- Sullivan ratings: If a company has signed the Sullivan principles, its ratings measuring compliance with the Sullivan principles for the last four years appear here. If a company has more than one subsidiary in South Africa, each receives its own annual rating and all the ratings appear for that year in the order the subsidiaries are listed in the Directory.

At a minimum, a company must meet nine "basic requirements" in order to be rated in either of the top two rating categories. Failure to meet any one of these requirements automatically consigns a company to Category III, regardless of its performance in other areas. The basic requirements cover such issues as desegregation, minimum wages, trade union rights, equal pay for equal work, and elimination of racial discrimination in pay or benefits--the objectives covered by the first three Sullivan principles. In addition, the basic requirements direct the company to inform all its employees that it has signed the principles, to tell them its Sullivan rating, and to review its implementation of the principles with representative groups of employees several times each year. Since 1982, each company also is required to submit its completed questionnaire to its accounting firm to verify the company's responses concerning its total payroll, total employment, minimum wage, and total expenditures made for education, training and community development programs.

If a company meets all the basic requirements it is then evaluated and assigned points for its performance in three major areas--efforts on behalf of black education, training and advancement for its black employees, and community development.

For 1984, Sullivan signers were rated by the consulting firm of Arthur D. Little in the following categories:

- Category I -- Making good progress
- Category II -- Making progress
 - II-A -- Making progress based on full reporting
 - II-B -- Making progress based on a short-form questionnaire available for the first time in 1984 to companies with fewer than 25 employees and less than 50 percent equity in a South African subsidiary
- Category III -- Needs to become more active
 - III-A -- Passed basic requirements for the first three principles but received low point ratings on the other three principles
 - III-B -- Does not meet basic requirements of first three principles
 - III-C -- Did not submit a report
- Category IV -- Endorsers of the principles that have few or no employees
 - IV-A -- Meeting basic requirements
 - IV-B -- With no employees
 - IV-C -- With 25 or fewer employees
 - IV-D -- Holds less than 50 percent equity in its South Africa operation
- Category V -- New signatory
- Category VI -- This category was discontinued in 1984
- Category VII -- Signatory with headquarters outside the U.S.

For 1981, 1982 and 1983, Sullivan signers were rated according to a system slightly different than that used in 1984:

- Category I -- Making good progress
- Category II -- Making progress
- Category III -- Needs to become more active
 - III-A -- Passed basic requirements but received low point rating
 - III-B -- Does not meet basic requirements
- Category IV -- Endorser of the principles that has few or no employees
 - IV-A -- With no employees
 - IV-B -- With 10 or fewer employees in a subsidiary or operation
 - IV-C -- Holds less than 19 percent equity in its South Africa operation
- Category V -- New signatory
- Category VI -- Signatory that did not report
- Category VII -- Signatory with headquarters outside the U.S.

- Total employees in South Africa: Most recently available figure for the size of the company's total work force.
- 1983 South African sales: Value of sales by the parent company's subsidiaries and affiliates in South Africa and Namibia in 1983.
- Percent of total: Sales in South Africa and Namibia as a percentage of the parent company's total domestic and international sales in 1983.
- Assets in South Africa: Value of the parent company's assets in South Africa and Namibia.
- Percent of total: Assets in South Africa and Namibia as a percentage of the parent company's total domestic and foreign assets at the end of 1983.

Following this information, each subsidiary and affiliate in South Africa or Namibia is listed. For each subsidiary or affiliate the following is provided:

- Name of subsidiary or affiliate.
- Location: Location of subsidiary's major business premises in South Africa and Namibia. Johannesburg appears in parentheses following the names of industrial suburbs in the greater Johannesburg area.
- Product line: Major lines of business of the subsidiary or affiliate.
- Number of employees: Most recently available figures on the number of employees, by race, at the subsidiary or affiliate. Because many companies treat Asians and coloreds--persons of mixed race--as a single racial category, IRRC has followed that procedure. The three racial categories are African, Asian/Colored and White.

APPENDIX D: U.S. COMPANIES WITH DIRECT INVESTMENTS IN SOUTH AFRICA

By Size of Assets in South Africa

The following tables group U.S. companies with direct investment in South Africa according to the size of their assets there. The first table groups companies according to the dollar amount of their assets in South Africa, and the second groups them according to the percentage of their total corporate assets that is invested in South Africa. Because IRRC was unable to obtain dollar figures from 199 of the companies and percentages from 179, only one-third of the companies in the Directory appear in this Appendix.

Name of Company	Value of Assets in South Africa
0 to less than \$2 million	
American Express Co.	\$0.08 million
American Hospital Supply Corp.	\$1.3 million
Ashland Oil Inc.	\$1 million
Boeing Co.	\$5500
Butterick Co. Inc.	negligible
CBS Inc.	\$0.5 million
Citicorp	\$0.2 million
Cummins Engine Co. Inc.	None
D'arcy-MacManus & Masius Worldwide Inc.	\$1.8 million
Diamond Shamrock Corp.	\$0.13 million
E.I. du Pont de Nemours & Co. Inc.	None
Engelhard Corp.	\$1.5 million
Flow General Inc.	\$0.33 million
GATX Corp.	negligible
Healthdyne Inc.	\$0.15 million
John Fluke Manufacturing Co.	\$1.7 million
Johnson Controls Inc.	\$0.93 million
Lykes Bros. Steamship Co. Inc.	None
Perkin-Elmer Corp.	\$0.1 million
Pizza Inn Inc.	None
A.H. Robins Co. Inc.	\$0.44 million
Simplicity Pattern Co. Inc.	\$1.1 million
The Stanley Works	\$1.3 million
Warner Electric Brake & Clutch Co.	\$0.1 million
West Point-Pepperell Inc.	\$1.2 million
Wilbur-Ellis Co.	\$1.5 million
\$2 million to less than \$10 million	
A.C. Nielsen Co.	\$4.7 million
American Cyanamid Co.	\$9 million
Armco Inc.	\$5 million

Name of Company	Value of Assets in South Africa
Celanese Corp.	\$5.5 million
Chicago Pneumatic Tool Co.	\$5.2 million
Fluor Corp.	\$9 million
Franklin Electric Co. Inc.	\$2.3 million
Grolier Inc.	\$2.8 million
International Minerals & Chemical Corp.	\$9.8 million
McGraw-Hill Inc.	\$3.2 million
Midland-Ross Corp.	\$3 million
Monsanto Co.	\$2 million
Oak Industries Inc.	\$3.9 million
Smith International Inc.	\$3.5 million
Stauffer Chemical Co.	\$2.3 million
\$10 million to less than \$25 million	
Alexander & Alexander Services Inc.	\$18 million
American Home Products Corp.	\$24 million
American International Group Inc.	\$20 million
Baxter Travenol Laboratories Inc.	\$13 million
Caterpillar Tractor Co.	\$22 million
Chesebrough-Pond's Inc.	\$13 million
Cooper Industries Inc.	\$12 million
Dart & Kraft Inc.	\$16 million
Eaton Corp.	\$10 million
Exxon Corp.	\$10 million
ITT Corp.	\$10 million
Kimberly-Clark Corp.	\$11 million
Merck & Co. Inc.	\$23 million
Pepsico Inc.	\$15 million
Pfizer Inc.	\$13 million
Phillips Petroleum Co.	\$14 million
Rohm & Haas Co.	\$10 million
SmithKline Beckman Corp.	\$12 million
Standard Oil Co. (Ohio)	\$10 million
The Interpublic Group Of Companies Inc.	\$16 million
The Lubrizol Corp.	\$14 million
The Sentry Corp.	\$17 million
United States Gypsum Co.	\$16 million
United Technologies Corp.	\$21 million
\$25 million to less than \$100 million	
Air Products & Chemicals Inc.	\$34 million
Borg-Warner Corp.	\$29 million
CIGNA Corp.	\$29 million
Coca-Cola Co.	\$60 million
Control Data Corp.	\$44 million
Dow Chemical Co.	\$32 million

APPENDIX D

Name of Company	Value of Assets in South Africa
Dresser Industries Inc.	\$45 million
Ingersoll-Rand Co.	\$31 million
Johnson & Johnson Co.	\$42 million
Minnesota Mining & Manufacturing Co.	\$26 million
Newmont Mining Corp.	\$86 million
Norton Co.	\$26 million
Phelps Dodge Corp.	\$37 million
Sperry Corp.	\$33 million
Xerox Corp.	\$42 million
\$100 million or more	
Burroughs Corp.	more than \$150 million
Ford Motor Co.	\$230 million
General Motors Corp.	\$140 million
Mobil Corp.	\$400 million

Name of Company	South African Assets as Percent of Total Assets
0 to less than 0.5%	
Abbott Laboratories	less than 0.5%
American Cyanamid Co.	0.3%
American Express Co.	0.0008%
American Hospital Supply Corp.	0.00006%
American International Group Inc.	0.2%
Armco Inc.	0.14%
Ashland Oil Inc.	0.02%
Boeing Co.	negligible
Borden Inc.	less than 0.5%
Butterick Co.	negligible
CBS Inc.	0.02%
CIGNA Corp.	0.1%
Celanese Corp.	0.19%
Cummins Engine Co. Inc.	0
Dart & Kraft Inc.	0.29%
Diamond Shamrock Corp.	0.01%
Dow Chemical Co.	0.25%
E.I. du Pont de Nemours & Co. Inc.	0
Eaton Corp.	less than 0.5%
Exxon Corp.	0.02%
Flow General Inc.	0.2%
Fluor Corp.	0.2%
GATX Corp.	negligible
General Electric Co.	less than 0.5%

Name of Company	South African Assets as Percent of Total Assets
General Motors Corp.	0.31%
Healthdyne Inc.	0.1%
ITT Corp.	0.2%
Johnson Controls Inc.	0.1%
Kimberly-Clark Corp.	0.4%
Lykes Bros. Steamship Co. Inc.	0
Marriott Corp.	less than 0.15%
McGraw-Hill Inc.	0.3%
Midland-Ross Corp.	0.43%
Monsanto Co.	less than 0.5%
Parker Hannifin Corp.	less than 0.5%
Pepsico Inc.	0.3%
Perkin-Elmer Corp.	0.01%
Phillips Petroleum Co.	0.11%
Pizza Inn Inc.	0
A.H. Robins Co. Inc.	0.087%
Smith International Inc.	less than 0.5%
Standard Oil Co. (Ohio)	0.06%
Stauffer Chemical Co.	0.3%
The Sentry Corp.	0.06%
The Stanley Works	0.2%
United Technologies Corp.	0.24%
Warner Electric Brake & Clutch Co.	0.1%
West Point-Pepperell Inc.	0.17%
0.5% to less than 1.0%	
A.C. Nielsen Co.	0.8%
Allis-Chalmers Corp.	less than 1%
American Home Products Corp.	0.75%
Baxter Travenol Laboratories Inc.	less than 1%
Caterpillar Tractor Co.	0.7%
Control Data Corp.	0.5%
Cooper Industries Inc.	0.6%
Deere & Co.	less than 1%
FMC Corp.	less than 1%
Honeywell Inc.	less than 1%
International Minerals & Chemical Corp	0.5%
Loctite Corp.	less than 1%
Minnesota Mining And Manufacturing Co.	0.7%
NCR Corp.	less than 1%
Oak Industries Inc.	0.86%
Pfizer Inc.	less than 1%
Phibro-Salomon Inc.	less than 1%
Rohm & Haas Co.	0.6%
Scovill Inc.	less than 1%

APPENDIX D

Name of Company	South African Assets as Percent of Total Assets
SmithKline Beckman Corp.	less than 1%
Sperry Corp.	0.6%
Sybron Corp.	less than 1%
The Parker Pen Co.	less than 1%
Uniroyal Inc.	less than 1%
W.R. Grace & Co.	less than 1%
Warner Communications Inc.	less than 1%
Xerox Corp.	0.52%
1.0% to less than 2.0%	
Air Products & Chemicals Inc.	1.5%
Alexander & Alexander Services Inc.	1.3%
Borg-Warner Corp.	1.1%
CPC International Inc.	less than 2%
Chesebrough-Pond's Inc.	1.2%
Chicago Pneumatic Tool Co.	1.8%
Dresser Industries Inc.	1.4%
Engelhard Corp.	1.7%
Ford Motor Co.	1%
Grolier Inc.	1.2%
Ingersoll-Rand Co.	1.3%
John Fluke Manufacturing Co.	1.1%
Johnson & Johnson Co.	1%
Merck & Co. Inc.	1%
Phelps Dodge Corp.	1.9%
Revlon Inc.	less than 2%
Simplicity Pattern Co. Inc.	1%
United States Gypsum Co.	1.3%
2.0% or more	
Burroughs Corp.	more than 3.75%
Coca-Cola Co.	2.4%
D'arcy-MacManus & Masius Worldwide Inc.	6.2%
Franklin Electric Co. Inc.	3.8%
Mobil Corp.	3.1%
Newmont Mining Corp.	4.1%
Norton Co.	4.2%
Rexnord Inc.	less than 3%
The Interpublic Group Of Companies Inc.	2.3%
The Lubrizol Corp.	2%
Wilbur-Ellis Co.	3%

IRRC

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South Africa Review Service

THE IMPACT OF SOUTH AFRICA-RELATED DIVESTMENT
ON EQUITY PORTFOLIO PERFORMANCE

January 1985

II. EXECUTIVE SUMMARY

This report discusses the effect on investment performance of complete divestment of the securities of companies engaged in business in South Africa. The discussion is based on an analysis of nine studies completed between 1978 and 1984 by a variety of organizations and individuals.

While we looked for quantitative estimates of the costs related to divestment, we found few in which we had complete confidence. Although the impact of divestment is difficult to quantify with any degree of accuracy, some costs are associated with divestment and their magnitude will vary principally with the investment style of the portfolio manager and with the value of the equity portion of the portfolio. In general, the large portfolio that divests from all South Africa-related companies and is actively managed will bear relatively greater exposure to any additional costs associated with divestment.

The costs of divestment can be reduced, perhaps to a significant extent, by employing different management techniques. Some of the discussion that follows suggests ways of reducing the deleterious effects of divestment. Nevertheless, the elimination of South Africa-related securities from investment funds will require substantial changes for most portfolio management styles to reduce these costs, changes that many fund managers may be unable or unwilling to implement. Many of the more sanguine conclusions listed below pertain to investment styles that are not now employed by many professional portfolio managers.

The most important conclusions arising from these nine studies are as follows:

1. Companies affected by a South Africa divestment policy

The U.S. companies engaged in business in South Africa are for the most part large and successful; they represent relatively safe investments. Stocks of these companies tend to have below-market levels of risk, with correspondingly lower rates of return. Complete divestment eliminates more than one-third of the market value of all equity securities in the United States, and it would exclude virtually all of the Standard & Poor's 500 companies in several important industries.

2. Risk and return characteristics for constrained and unconstrained portfolios

Nearly all of the studies that measured risk and return found that the South Africa-free portfolio exhibited both higher rates of return and greater variability of returns (which is the definition of risk in financial theory) than did unconstrained portfolios. This comparison, however, tells us little about the risk/return tradeoff in the two universes of stocks, and it fails to answer the question of whether the additional return was sufficient to compensate investors for the additional risk. Valid comparisons are made most easily if portfolios of equal risk are selected from the constrained and unconstrained universes of companies, which then are compared in terms of rates of return. Although this is feasible, none of the nine studies attempted to do it.

3. Costs of divestment

The sale of stocks of companies doing business in South Africa and their replacement with stocks of companies from the South Africa-free universe results in both one-time and ongoing transaction costs. These transaction costs consist of (1) commissions paid to brokers and dealers, (2) a price pressure effect or liquidity cost, and (3) fees and transfer taxes. Estimates of one-time transaction costs associated with a divestment policy range from 1.5 percent to 6 percent of the value of stocks sold to comply with a divestment policy.

Estimates of ongoing, additional transaction costs associated with a divestment policy range from 0.5 to 2.7 percent of the value of that portion of the stock traded in South Africa-free companies that normally would have been invested in companies with operations in South Africa. Because most unconstrained equity portfolios have 30 to 40 percent of their holdings in South Africa-related companies, these additional transaction costs will apply only to 30 to 40 percent of the existing portfolio and to 30 to 40 percent of the new contributions to the fund. The additional transaction costs arise because the smaller market capitalization firms that characterize the South Africa-free universe are typically less actively traded and, as a consequence, have higher transaction costs than those in the unconstrained universe.

4. Portfolio management style

The investment approach that a fund selects has a significant bearing on the potential impact of divestment.

Divestment may generate the fewest costs for passively managed portfolios that try to match the risk and return characteristics of the S&P 500 or other broadly based indices. The evidence suggests that it is possible to construct passive portfolios that exclude South Africa-related securities and that track the S&P 500 reasonably well. Nevertheless, nonmarket risk in a South Africa-free index may be from three to five times greater than in commercially available index funds that are not constrained by a South Africa divestment guideline (approximately 2 percentage points instead of 0.5 percent or less). Because of the smaller number of companies in the constrained universe, however, money managers would have to rely more heavily than they have traditionally on mathematical models that aid in the construction of South Africa-free index funds. And a South Africa-free fund may require more frequent trades than a conventional unrestricted index fund and thus may bear higher transaction costs.

Portfolios that make active stock selections on the basis of mechanized decision-making rules--using formulas for selecting undervalued stocks, for example, or stocks with low price/earnings ratios--also should be able to keep the costs arising from divestment to a relatively low level.

Actively managed portfolios that depend on company-specific research and on frequent trades that must be executed within a short period of time will incur the greatest costs under divestment. Fund managers that rely on security analysts to investigate the return prospects of stocks probably will incur higher research costs under divestment because they will have to follow a larger number of smaller companies, which may require more intensive analysis. Also, rapid trades in the smaller capitalization world of South Africa-free companies would expose a fund to increased liquidity costs.

5. Size of equity portfolio

For large funds, a major cost associated with divestment will be the pressure on stock prices as they attempt to buy or sell the stock of South Africa-free companies--com-

panies that on average have one-half the market capitalization and one-half the daily trading activity of companies in the unconstrained universe. Some estimates of these liquidity costs for large funds are sobering, particularly for managers who require quick execution of their transactions. These costs may be reduced by less frequent trades and by trading in smaller blocks--solutions that active managers may argue would negatively affect the portfolio's expected return.

The one study that attempted to set a point where a "small" fund becomes "large" estimated the threshold as \$50 million in equities. Our own conclusion is that there is a continuum, rather than a threshold, where these added, "large fund," costs first come into play. That continuum ranges from \$50 million to approximately \$150 million. Where along that range a fund will incur these added costs will depend largely on its investment style and the frequency and speed of trading that style requires.

6. Ways of bringing increased diversification into a South Africa-free portfolio

In setting divestment guidelines, fund policy makers may be able to consider the role of alternative securities such as options and futures whose returns depend on the returns of securities of South Africa-related companies. These securities are issued by securities exchanges, and funds holding options and futures whose returns depend, either in whole or in part, on the returns of South Africa-related securities need never hold the restricted securities themselves. If these options and futures could be held in South Africa-free portfolios, the costs of divestment in the form of nonmarket risk and increased liquidity costs would decrease. However, using this investment strategy might violate the intent of a divestment policy, and several institutional investors have told IRRC that these investment options definitely would be counter to a policy that prohibits investing in companies with operations in South Africa.

ALASKA PERMANENT FUND CORPORATION

Regular Meeting Minutes
December 9, 1985

Corporation Office
801 West 10th Street, Suite 302
Juneau, Alaska

I. CALL TO ORDER

Mr. Byron I. Mallott, Chairman, called the meeting to order at 9:20 a.m. in the Alaska Permanent Fund Corporation office, Juneau, Alaska.

II. ROLL CALL

Trustees Present: Byron I. Mallott, Chairman
Clyde M. Sherwood, Vice-Chairman
Hugh Malone
Mary A. Nordale
Emil Notti

Trustee Absent: Arnold G. Espe

Staff Present: David A. Rose, Executive Director;
William L. Means, Chief Investment Officer; Richard E. Alexander, Investment Officer; Jim Kelly, Research & Liaison Officer; Alison E. Farnan, Office Manager; Becky Mitchell, Senior Secretary.

Others in Attendance: Diane Crawford, Dan Ford, Alaska National Bank of the North; Michael Thill, aide to Senator Zharoff; Bob Dawkins; Robert Thibodeau; Eric Eckholm, Pacific Communications; Bob Scot, KJUD; Helen Fisher, Representative Dave Thompson's office; Peter Kenyon, Alaska Public Radio Network.

III. MINUTES OF PRIOR MEETINGS

A. September 19-20, 1985

It was moved by Ms. Nordale and seconded by Mr. Sherwood,

THAT, the minutes of the Annual Meeting, held September 19 and 20, 1985, be approved.

The motion carried unanimously.

B. November 11, 1985

It was moved by Ms. Nordale and seconded by Mr. Malone,

THAT, the minutes of the November 11, 1985 meeting be approved.

The motion carried unanimously.

IV. COMMUNICATIONS AND APPEARANCES

A. Communications

Mr. Rose reported that correspondence had been received from Nell Thomas of Homer and L. Feekson of Anchorage. Ms. Thomas voiced her appreciation to the Board for her dividend check, on the Board's successful management of the Fund and on the quality of the brochure that accompanied the dividend checks. Mr. Feekson voiced his displeasure that the undistributed income of 11% was not included in the dividends and that the undistributed income should be included in the 1986 dividends.

B. Appearances

There were no legislative or executive branch appearances.

V. REPORTS

A. Financial Summary

Mr. Rose reported that, as indicated in the October financial report, substantial increases in unrealized gains and paper profits were made by the Fund. He added that the figures for November, to be released soon, show \$230 million of new unrealized gains and total unrealized gains of \$600 million in both fixed income and stock. This is the second highest monthly gain in Fund history.

Current Fund investment in home mortgages is \$49 million. Mr. Rose presented a delinquency analysis report to the Board showing that the portfolio contains 3 loans that are 61-90 days delinquent and 4 loans that are over 90 days delinquent. Four properties have been foreclosed and are up for sale at this time.

Mr. Rose distributed a chart to the Trustees outlining the performance of the Fund's five equity managers July 1985 through November 1985. All the managers, with the exception of Batterymarch, are performing as well as the S&P500 or better. Mr. Rose reported that the Fund's stock portfolio showed \$143,730,735 in unrealized gains as of November 30, 1985.

Discussion arose regarding Batterymarch's continued poor performance. Mr. Rose advised the Board that Special Advisors to the Trustees would be invited to attend the February meeting and that this would be a good time for an in-depth discussion of long range plans involving Batterymarch and the Fund. He stated that staff will recommend searching for another manager within 60 days unless Batterymarch's performance changes dramatically. Mr. Rose added that no additional money has been placed with Batterymarch since September. Lehman and Rosenberg now receive \$3.75 million per month and Eaton Vance receives \$2.50 million per month.

Mr. Mallott requested that further discussion regarding Batterymarch be a specific agenda item at the February meeting.

B. Real Estate Investment - Westwood Place

Mr. Rose reported to the Trustees that staff had committed to Westwood Place, a sixteen story office building located in Los Angeles, California. (Memoranda is attached to these minutes.)

C. Legal Review of Contracts

Mr. Rose reported that the legal firm of Willkie Farr and Gallagher through the Alaska Department of Law has completed its review of all fiduciary contracts that the Corporation is currently involved in. Willkie Farr and Gallagher's review revealed no substantial deficiencies and they advised that no amendments were necessary to any of the existing agreements. In negotiating future contracts they suggest that indemnification language used in current contracts be changed. (Memoranda from Willke, Farr is attached to these minutes.)

D. Investment in U.S. Companies Doing Business in South Africa

Mr. Rose reported on staff's research pertaining to the South Africa divestment question. Staff is currently working on a response to the questions posed at the last Board meeting by Trustee Malone regarding how much each company has invested in South Africa and what degree of financial liability to the Fund exists should these companies lose their assets or business connections in South Africa. Mr. Rose referred to Bill Means' memorandum and attachments of December 3 (copy attached) as a source of information the Trustees could examine for detailed analysis of divestment issues. Mr. Rose added that attachments 1 and 5 to the memo provide commentary in response to the commentary presented in the paper written by John Harrington, President of the Working Assets Money Fund, which was distributed to the Trustees at their November 11, 1985 meeting.

Jim Kelly, Research & Liaison Officer, stated that he had obtained a partial list of what percentage of U.S. companies' assets are invested in South Africa. He added that a complete list could be impossible to obtain because some companies will not disclose their operations. No company has more than 3% or 4% of their assets invested in South Africa and the majority have 1% or less of their assets invested there. Mr. Kelly reported that although several hundred U.S. companies have business facilities in South Africa approximately 6,000 trade with South Africa.

Mr. Rose reported that an analysis of companies having business interests in South Africa shows that 104, or almost half, are registered with the Alaska Department of Commerce to do business in Alaska. This figure does not include their subsidiaries which may or may not be registered. Mr. Rose pointed out that revenues received from multinational oil companies is the "life blood" of Alaska yet it is these same companies that have business interests in South Africa.

Mr. Mallott expressed his conviction of how important it is for the Board and staff to continue to address all types of questions that can arise when discussing the divestment issue. Staff is accumulating enough information that, at some point in the future, they may be able to provide the public and legislature with needed information about the pros and cons of South Africa divestment.

Ms. Nordale emphasized that current law imposes adherence to the prudent investor rule and if that rule is amended to allow for South Africa divestment then its application becomes extremely complex. She asked staff to perform an analysis of what the investment and growth opportunities would be if the Fund stepped out of the equities market completely. Mr. Rose responded that an analysis had been done several months ago by the Public Employees' Retirement System, Teachers' Retirement System and the Fund on what effect cutting back, but not total elimination, of equity investment would have. The asset allocation that would have gone to equities was to be invested in corporate bonds, in PERS and TRS's case, and in treasury bonds, in the Fund's case. Between the three organizations, an opportunity loss of \$500 million over a five year period was calculated. Mr. Rose added that if the Fund were to divest completely from the equities market, timing could be a critical factor if gains were to be taken rather than losses. Complete divestment from the equities market would not be in the best interests of the Fund. Mr. Rose indicated that he would have staff prepare an impact analysis of a stock-free portfolio.

E. Status of Public Information/Accountability Program

Mr. Kelly advised the Board that the Public Information/Accountability video production "For All of the Future" by Alaska Video Productions was nearing completion. The Trustees viewed a portion of the draft video and reviewed a draft teachers' guide. Mr. Kelly stated that a tentative distribution date of January had been set. The Trustees requested that before distribution began they see the final versions of all materials; the video, the teachers' guide, the 60-second video promotion and the publicity brochure.

R E C E S S

After a 15 minute recess, Mr. Mallott called the meeting to order.

F. Quarterly Investment Presentation

William Means, Chief Investment Officer, presented the attached quarterly investment presentation to the Trustees.

Mr. Means reported that because of market conditions during the past five days, the Fund added substantially to its long bond and 10 year note positions. This strategy has proven correct; the Fund has earned a one percent profit in all issues. Total profits, as of November 30, in the fixed income portfolio are \$455 million. Since that date, total profits have risen to \$500 million.

Mr. Means predicted that interest rates should continue their gradual decline over the next few months and that a recession in 1987 is likely. Should this happen, interest rates could decline even more dramatically. Investment strategy is very important at this time. It would be wise to extend the maturity of the Fund's portfolio especially if the world price of oil declines as it is predicted to do.

Mr. Means recommended that the Trustees adopt Resolution 85-13 which increases the allowable parameters of investments in marketable fixed income securities with maturities of 6-10 years and over 10 years each by 5%.

VI. PUBLIC PARTICIPATION

Bob Thibodeau expressed his approval of current Fund investment strategy.

Bob Dawkins stated that his children were concerned about Permanent Fund money being raided and that he was appearing before the Board for answers to his children's questions.

Ms. Nordale explained that the Trustees are charged with making investments and safeguarding the Fund from an investment standpoint. Present law provides that the earnings of the Fund are to be used for dividends and inflation-proofing. The balance of excess earnings is held subject to legislation. The Fund was established with the idea that it would ultimately help to fund state government. Until now the money was not needed for this purpose and the decision to spend has not yet been made. The questions are, do we continue to hold on to the earnings of the Permanent Fund until the scope of services which the state renders has been diminished to a much lower level than what currently exists, or, do we maintain a level of services and draw against Permanent Fund earnings for maintenance of these services? Do we reinstate personal taxation to fund a particular level of state government? Many have suggested state

government be cut across the board by 8%, 10% or 15%. We must realize that half of all money that goes into the Treasury is reappropriated by the Legislature and goes back out into the communities. We need to determine what services state government is or is not to provide and how municipal governments are to survive with less state funds. Then we need to determine where the money will come from if we need additional money to support those choices.

Mr. Malone stated that using earnings of the Fund could temporarily offset declining revenues but this action would not solve the problem. He added that, in his opinion, before any move was made to utilize Permanent Fund earnings, the public should vote on the issue.

Mr. Mallott stated that the Trustees' role is to maintain rational objectivity and to help create parameters within which reasonable, responsible decisions can be made.

VII. OLD BUSINESS

A. RFP - Performance Measurement

Mr. Rose reported that three proposals had been received by the Corporation in response to the Performance Measurement RFP and that, after rating and ranking of all proposals, staff recommends the contract award be made to SEI at \$56,000.

Mr. Notti moved and Ms. Nordale seconded,

THAT, the Executive Director be authorized to award the Performance Measurement contract to SEI in the amount of \$56,000.

The motion carried unanimously.

VIII. NEW BUSINESS

A. Resolution 85-13, Quarterly Fixed Income Allocations

Mr. Sherwood moved and Mr. Malone seconded,

THAT, Resolution 85-13, minus the Marketable Debt Securities and Representative Market Yields attachments, be adopted.

The motion carried unanimously. (A copy of the Resolution is attached to these minutes.)

B. De Facto Policy - Real Estate

Mr. Rose explained that his memorandum of December 9, 1985 (copy attached) reviews de facto policies which have evolved as a result of Fund real estate investments.

Mr. Sherwood and Mr. Malone expressed that although the substantially leased policy of the Board has been met, they wanted to reaffirm their view that the Fund should be financing solid projects and should not reduce its standards in this area.

Mr. Rose stated that as a whole, all the Fund's real estate investments comply with the established substantially leased/rented policy but that projects involving to-be-built buildings do not fit as easily within the policy.

Mr. Notti said he favors a conservative substantially leased policy in order to protect the Fund's real estate investments.

ANNOUNCEMENT

Mr. Rose announced that the Trustees were to have lunch with the Governor at noon and that after lunch staff planned to show the Public Information/Accountability video in its entirety should the Board wish to see it. He added that if the Board has any changes to make to the video it would be best to notify the contractor as soon as possible.

Mr. Mallott recessed the meeting at 12:00 p.m. for lunch.

R E C E S S

Mr. Mallott called the meeting back to order at 2:10 p.m.

C. Meeting Dates - 1986

Mr. Rose distributed a calendar indicating 1986 meeting dates and locations for the Trustees' review. The Board decided to keep current policy by meeting the second Monday of each month with the exception of the September meeting to be held the 25th and 26th. Mr. Sherwood recommended that the May 1986 meeting be held in a city located on the peninsula. It was decided that the Board would meet in Kenai that month.

Mr. Mallott announced that item IX on the agenda would be postponed until after the Trustees viewed the entire draft Public Information/Accountability video, "For All of the Future".

V. REPORTS (continued)

E. Status of Public Information/Accountability Program

The Trustees viewed the video in its entirety.

Ms. Nordale expressed her concern about a discrepancy in the video. This discrepancy occurs near the end of the video where the student council is discussing their decision on how to use the \$100,000 received by the senior class. Ms. Nordale said she felt the dialogue indicates that the students were not prepared to accept the fiduciary responsibility of carrying out the performance of their task as recipients of the \$100,000 gift and were attempting to delegate their trusteeship by having a school wide vote.

Eric Eckholm, Pacific Communications and Marketing, advised the Board that this problem could be solved by editing out rather than embellishing the specific dialogue referred to by Ms. Nordale. This process was agreed upon by the Board.

Mr. Malone stated that he thought the Board should review all graphics of charts that would appear on the video prior to its release.

Mr. Mallott requested that all references to the contractor be removed from the instructional video and teachers' guide except as producers of the project.

VIII. D. Tax Status of the Fund

Mr. Rose reported that the Attorney General's office recommends the Corporation have an independent (Willke, Farr & Gallagher) legal review performed regarding the Fund's taxable status. The Trustees discussed the matter and concurred that the Corporation's budget might not accommodate this expense. They requested that Mr. Rose ask the Attorney General's office to perform this legal review for the Corporation.

IX. TRUSTEE COMMENTS

Mr. Mallott requested that staff provide specific updates on upcoming legislation pertaining to the Fund so that the Trustees can prepare themselves for the next legislative session.

X. ADJOURNMENT

There being no further business to come before the Trustees, the meeting was adjourned at 3:10 p.m.

Approved: _____

Richard Mallott
Chairman, Board of Trustees

Attest: _____

Mark C. Ru
Secretary



Alaska Permanent Fund Corporation

Pouch 4-1000 Juneau, Alaska 99802

TEL 907/465-2047 TIX 099-46-323

M E M O R A N D U M

DATE: ~~December 23, 1985~~
TO: David A. Rose, Executive Director
FROM: *William L. Means*
William L. Means, Chief Investment Officer
SUBJECT: South African Divestment: The Investment Issues

Enclosed are several authoritative articles and excerpts of reports dealing with the investment issues of South African divestment.

Attachment I is an article from the Financial Analysts Journal which deals with the specific issues of increased investment risk, reduced investment and diversification opportunities, and increased costs inherent in a policy of South African divestment.

Attachment II consists of excerpts from a brochure prepared by the National Center for the Public Interest. It points out the many difficulties associated with social (divergent) investing and the possibilities for conflicting social goals. It also raises the question of how a fiduciary is to be held accountable once it starts down the path of social investing.

Attachment III is an excerpt from the Treasurer's Report to the Regents of the University of California, questioning whether divestment is an effective mechanism for bringing pressure on corporate management. Yale University's attitude is that if it "simply sells its holdings in such a company, it loses its standing to raise ethical questions regarding social responsibility".

Attachment IV is a listing of the South African divestment policies or actions of various state investment boards and retirement systems.

David A. Rose
December 3, 1985
Page 2

Attachment V is an excerpt from the Treasurer's Report to the Regents of the University of California, explaining in layman's language the specific issues of increased investment risk, reduced investment and diversification opportunities, and increased costs involved in South African divestment.

WLM/af
Attachments

South African Divestment: The Investment Issues

More and more U.S. cities and states are weighing legislation that would restrict public pension plans from investing in companies that do business in South Africa. Divestment has potentially serious implications for the investment policies and practices of large funds.

Consider what happens if each of the 152 South African-related companies in the Standard & Poor's 500 is replaced by the largest "unrestricted" company in its industry. The new Alternative Universe amounts to less than 62 per cent of the capitalization value of the "old" S&P 500. Large multinational companies are replaced by smaller, domestic companies. The capitalization weights of some industries (including drugs, motor vehicles and product equipment) are more than halved. The Alternative Universe has 8 per cent more risk, as measured by beta, and 3 per cent less diversification than the S&P 500.

A pension fund restricted to this universe may expect higher trading and administrative costs inasmuch as its portfolios will contain smaller, riskier and less liquid companies. The larger the fund, the more likely it will have to restructure its plan investments completely in order to achieve targeted risk/return goals.

A COALITION OF RELIGIOUS, political and labor groups opposed to South Africa's race policies is placing increasing pressure on public pension funds to restrict or eliminate investments in companies doing business in South Africa. Massachusetts, Connecticut and Nebraska, New York City, Philadelphia and Washington, D.C. have already imposed such restrictions on their pension fund portfolios. This article does not attempt to address the moral, political or ethical issues involved. Rather, it addresses the practical implications of divestment for pension fund managers.

Several studies have argued that prohibitions on investment in South African-related companies would not have a significant impact on pension fund portfolios:

"The effect on portfolio risk of excluding the companies operating in South Africa . . . is, contrary to intuition, not particularly important."¹

" . . . such a restrictive policy really is not all that inhibiting."²

"A skilled investment manager should be confident that exemplary returns can be achieved within the guidelines of the proposed legislation."³

According to the opinions gathered for the Washington, D.C. Retirement Board, professional investment managers disagree. The vast majority of managers felt that performance would be reduced. Nine out of 10 thought diversification would be hampered. Three out of four thought that quality would be impaired. Half said they would refuse to accept fiduciary responsibility under such conditions.

The National Association of State Investment Officers, concerned about compromising fidu-

Wayne Wagner is Chief Investment Officer of Wilshire Associates Asset Management Division. Allen Emkin is Senior Associate of Wilshire Associates' Pension Consulting Division. Richard L. Dixon is an Analyst in Wilshire Associates' Asset Management Division.

1. Footnotes appear at end of article

ciary responsibilities, has adopted a resolution opposing laws that force managers to make investments based on "anything but the best interests of pension fund members." State retirement officers also question whether it is possible to implement restrictions, particularly on large portfolios, without reducing investment opportunities and, ultimately, investment results.

Investment officers, advocates of divestment and previous studies all agree that divestment restrictions have minimal practical effects on portfolios of \$50 million or less. But what about larger funds that have billions of dollars to invest? Would they be able to continue their current risk-reward strategies to fund future benefits, or would radical restructuring be required?

The Scope of the Challenge

A list of all companies with employees in South Africa or business relations with the government of South Africa includes 229 companies with a market capitalization on December 31, 1983 of over \$600 billion. This represents over half the total capitalization of the Standard & Poor's 500 (often considered to be the "opportunity set" for institutional investors) and almost 35 per cent of the weight of all common stocks as represented by the Wilshire 5000 index. Included are 31 of the 50 largest U.S. companies—such institutional favorites as IBM, Exxon, Merck and 3M—and 49 of the 100 largest.

The 229 companies on the list tend to be concentrated in those industries whose products or production processes are readily transportable and whose maturity, size and product acceptance have led them toward international markets. As Table I shows, companies on the list account for virtually all of the capitalization

weight of some S&P 500 industry groups and large percentages of others. Utilities, trucking, real estate, and other industries that are by nature domestic are not heavily represented by the companies on the list.

The size of a company and its industry clearly affect the probability of its being on a divestment list. Companies that are too small or too localized to have developed international markets are not likely to be affected by investment restrictions. Unfortunately, neither are these companies likely to offer the reduction in risk available from the size, financial strength, diversification of product line and dispersion of markets enjoyed by the large, international companies that are the likely candidates for any "prohibited" list. The challenge for restricted investment managers, then, is to construct from a reduced universe of smaller, generally riskier companies, portfolios that offer, at comparable risk levels, returns comparable to those offered by investments in large companies.

To analyze the effects of divestment and to examine the practical problems it creates, we constructed an "alternative investment universe" that is free of South African influence. We replaced each prohibited company in the S&P 500 with another company in the same industry. In total, 152 companies were replaced. In all cases, the substitutes were the largest available American companies without South African connections.

The Alternative Universe

At the end of the first quarter of 1984, the S&P 500 was worth over \$1.175 trillion. The 152 companies doing business with South Africa accounted for \$554 billion of the S&P 500's capitalization value. Their 152 replacements

Table I Industry Weights and Companies Eliminated by Divestment

Industry	% of S&P 500 Cap. Wt. Eliminated	Largest Company Eliminated	Replacement Company
Industrial Equipment	99	General Electric	Dover
Banks	97	Citicorp	Texas Communications
Photographic	93	Eastman Kodak	Xidex
Chemicals	87	DuPont	Diamond Shamrock
Drugs	87	American Home Prod.	Syntex
Conglomerates	86	MMM	Greyhound
Tire & Rubber	85	Goodyear	GenCorp
Office Equipment	84	IBM	Commodore
Motor Vehicles	81	General Motors	Mack Trucks
International Oils	76	Exxon	Murphy Oil (domestic oil)

were worth \$107 billion. The Alternative Universe thus came to \$728 billion—less than 62 per cent of the value of the S&P 500.

Rates of Return

Some researchers have noted that the average investment return on those companies that would be affected by divestment is significantly lower than the returns on companies free of South African connections. Indeed, it has been suggested that investment results could actually be improved by a divestment policy.

Our computations show that one dollar invested five years ago in the 152-stock portfolio of companies doing business in or with South Africa would have grown by now to \$1.94, including dividends. A dollar invested in the 152 replacement stocks would have grown to \$2.60—a difference in annual rate of return of over 7 per cent. But what is the source of this substantial difference?

Numerous studies have indicated that stocks of small firms have been outperforming those of large firms by substantial amounts.⁴ Wilshire Associates estimates that the 500 largest U.S. companies returned 9.7 per cent per year over the last 10 years, whereas the second largest 500 returned 17.9 per cent annually.⁵ The higher return on the replacement portfolio may thus be a reflection of this small firm effect.

Smaller, riskier companies promise higher returns and, in recent years at least, have delivered them. But high returns do not accrue without incurring greater investment risk. In the down market from July of 1983 through June 1984, the largest 500 stocks decreased in value 6.6 per cent; the second largest 500 declined 15.0 per cent.

Retirement plans are not free to take unlimited risks in pursuit of higher returns. The appropriate level of risk depends on the actuarial requirements of the plan, its funding status, legal restrictions and the retirement board's interpretation of fiduciary responsibility. All these factors affect a fund's ability to bear added risks in the hopes of higher, but uncertain, returns. Relative rates of return can be judged only in the context of risk assumed.

Investment Risk

A portfolio's risk tolerance is appropriately measured by its beta—i.e., its sensitivity to changes in the overall market. The market, as represented by the S&P 500, has a beta of 1.0. A

portfolio whose beta is greater than one is more volatile than the market, whereas one with a beta of less than one is less volatile. Another measure of portfolio risk is its R-squared—its degree of diversification in comparison to the market benchmark. The market, as proxied by the S&P 500, has an R-squared of 1.0. An actively managed portfolio concentrated in favored securities and sectors would be less diversified than the market and have an R-squared below the 1.0 indicating perfect diversification. Most active equity portfolios have an R-squared between 0.80 and 0.92; the R-squares of index funds approach 1.0.

The Alternative Universe is very well diversified, having an R-squared of 0.968, partly because of the high percentage of common holdings with the S&P 500. Although well diversified, it is riskier than the market, having a beta of 1.08. The Alternative Universe will rise or fall, on average, by 8 per cent for every 1 per cent change in the S&P 500.

Large funds that employ a multiple manager structure often specify a target beta as a means of controlling total portfolio risk. To meet a specified target with securities selected from the riskier Alternative Universe, managers may either have to select from among the least risky alternative stocks or hold larger cash positions.

Divestment may also involve strategic risks that are more difficult to quantify than investment or diversification risk. For example, during late 1983 and early 1984, energy was the only sector to show positive price appreciation.⁶ But energy stocks would have been heavily affected by divestment restrictions. Divestment may thus lead to diversification loss beyond the manager's control; the fund must bear the risk of foregoing profitable investment opportunities.

To construct the Alternative Universe, some large companies in the S&P 500 were replaced by other, smaller companies in the same industry. The relative importance of these industries was thus reduced in the Alternative Universe, while industries less affected by divestment gained in importance. Table II shows how industry weights of the Alternative Universe differ from the weights of the S&P 500. Note that the industries that have gained weight in the Alternative Universe are primarily domestic in nature. These industries are thus more susceptible to U.S. economic risk, which is not offset by sales and earnings from foreign countries.

Table II Industry Weight Changes

Industry	% of S&P 500	% of Alternative	% Difference
Business Mach.	8.7	3.1	-5.6
Inter. Oil	8.0	4.5	-3.5
Drugs	6.2	3.1	-3.1
Motor Vehicles	4.0	1.8	-2.2
Prod. Equip.	4.1	2.0	-2.1
Insurance	2.2	-3.3	+1.1
Railroads	1.9	3.0	+1.1
Paper	2.0	3.1	+1.1
Energy Explor.	3.5	5.4	+1.9
Domestic Oil	6.6	8.9	+2.3
Utilities	5.6	8.8	+3.2
Telephone	5.8	9.2	+3.4

Investment Desirability and Quality

Value Line publishes Timeliness Ratings, which measure stocks' anticipated 12-month price performance, and Safety Ratings, which measure companies' relative financial strengths.⁷ Table III compares the S&P 500 and the Alternative Universe on the basis of the distribution of timeliness ranks.

The Alternative Universe contains almost as many companies ranked in the top two categories for timeliness as the S&P 500. However, their capitalization value is substantially less. Institutions currently hold \$203 billion of the top rated stocks, representing 41 per cent of the total institutional holdings in S&P 500 stocks. Divestment would reduce institutional holdings of top rated stocks by \$110 billion; only 34 per cent of institutional holdings would be top rated.

The effects of divestment on Safety Rating are shown in Table IV. In terms of top Safety Ratings, the Alternative Universe falls short of the S&P 500 by 42 companies and \$372 billion in market capitalization. Companies rated highly for safety represent 59 per cent of the market capitalization of the S&P 500 but only 43 per cent of the Alternative Universe. Institutional managers now have 58 per cent of their S&P 500 holdings in the top Safety Ratings; only 42 per cent of institutional holdings in the Alternative Universe are top rated in safety.

Restricted institutional managers attempting to maintain the same standards of portfolio desirability and safety would be forced to compete for the smaller share of top rated Alternative Universe companies. If all institutional managers were subject to the same constraints, \$285 billion of current investments in high safety companies and \$203 billion of current investments in high desirability companies could be forced into \$116 billion worth of high safety companies and \$93 billion worth of high desirability companies in the Alternative Universe. It seems clear that only smaller funds could easily make such a transition without compromising portfolio attractiveness and, in particular, investment safety.

Liquidity and Trading Costs

Liquidity is one of the key areas in which large funds may experience difficulties not encountered by smaller funds. Thomas Loeb constructed a table of actual dealer quotes to show how company size and trade size affect transac-

Table III Proportions of S&P 500 in Top Two Value Line Timeliness Ranks

Universe	Number of Stocks	Capitalization (billions of dollars)	% of Total Cap.	Institutional Holdings (billions of dollars)	% of Inst. Hold.
S&P 500	137	440	37	203	41
Alternative	133	216	30	93	34
Difference	4	224	7	110	7

Table IV Proportions of S&P 500 in Top Two Value Line Safety Ranks

Universe	Number of Stocks	Capitalization (billions of dollars)	% of Total Cap.	Institutional Holdings (billions of dollars)	% of Inst. Hold.
S&P 500	179	688	59	285	58
Alternative	137	316	43	116	42
Difference	42	372	16	169	16

tion costs.⁸ Loeb's cost of trading includes direct commission costs, market-maker spreads and trading impact.

According to Loeb's study, larger trade sizes lead to higher trading costs. For example, the cost of acquiring a \$250,000 position in a billion dollar company is estimated to be 1.6 per cent, whereas a trade of \$2.5 million—10 times the size—would cost 3.9 per cent, or more than double. Similarly, trading in smaller companies is significantly more expensive than trading in larger companies. A \$500,000 trade involving a \$100 million company is more than twice as expensive as a \$100,000 dollar trade involving a billion dollar company (4.1 per cent vs. 2.0 per cent).

We used Loeb's figures to estimate transaction costs for acquiring (or selling) \$25,000, \$250,000 and \$2,500,000 positions in each of the 152 companies involved in South Africa and their 152 replacements. These three position sizes imply equally weighted portfolios of \$3.8 million, \$38 million and \$380 million. Table V shows the results. The replacement companies are significantly more expensive to trade than the original companies because of company size. Furthermore, the cost of trading increases as fund size increases.

The problem may be even more severe than Table V suggests. Because large portions of many of the smaller replacement companies are held by company officers and employees, the amount of stock actually available on the open market is in many cases substantially less than the apparent supply. Furthermore, if restrictions were implemented at about the same time, large funds' demand for replacement stocks could raise execution costs significantly higher. Finally, the higher transaction costs will persist after initial portfolio adjustment, as restricted

portfolios continue to trade among generally smaller companies.

Research and Administrative Costs

The larger a company and the greater its institutional ownership, the easier it is to obtain reliable information about it. The replacement companies in the Alternative Universe are less well known than their counterparts and are currently followed by fewer analysts. Brokerage house analysts submitted to Lynch, Jones & Ryan's I/B/E/S Service an average of 19.9 estimates on each of the companies involved in South Africa, but only 10.9 estimates on each replacement company.⁹ It may be expected that funds would require additional manpower to follow the replacement companies.

In addition, to the extent that the replacement stocks are riskier, hence subject to more frequent changes in fortune, higher turnover—executed at higher transaction rates—can be expected. More transactions lead to higher custodial activity, hence higher administrative costs.

Implications for Management Style

In the investment environment of the 1980s, managers are often retained as specialists, utilizing specific investment skills to attain particular investment objectives. Plan sponsors often hire a complementary set of managers, hoping to employ different expert manager skills within the context of an overall objective and structure.

Not all management styles would be equally affected by restrictions on South African companies. An "emerging growth" manager, for example, would be likely to be less affected than a "core" manager. Table VI gives some ideas on how divestment might affect management structure. Core-oriented managers would

Table V Transaction Costs

Company Size (millions of dollars)	No. Companies		% Transaction Cost for Position of		
	So. Afr.	Repl.	\$25,000	\$250,000	\$2,500,000
Under 100	1	1	2.0	3.0	3.9
100-500	19	57	1.1	1.6	2.0
500-1,000	21	67	1.0	1.6	2.0
1,000-1,500	20	17	1.0	1.4	1.8
Over 1,500	91	10	0.6	0.7	0.9
South African-Related Average Cost (%)			0.8	1.0	1.3
Replacement Average Cost (%)			1.0	1.5	2.0

Table VI Manager Style and Divestment Effects

Style	% Cap. Eliminated	R-Squared		Beta		Std. Error (%)	
		So.Afr.	Repl.	So.Afr.	Repl.	So.Afr.	Repl.
Passive Core	47	0.99	0.96	1.00	1.08	0.2	0.4
Active Core	40	0.97	0.91	1.01	1.07	3.0	5.7
Yield/Defensive	46	0.90	0.88	1.02	1.04	5.9	6.6
Rotator	46	0.93	0.89	1.02	0.95	4.8	5.9
Contrarian	26	0.94	0.93	1.09	1.10	4.6	5.1
Small Cap	26	0.79	0.79	1.36	1.39	12.0	12.4
Growth	8	0.86	0.83	1.21	1.27	8.4	10.0
Aggressive Grow	<u>22</u>	<u>0.68</u>	<u>0.65</u>	<u>1.48</u>	<u>1.46</u>	<u>17.6</u>	<u>18.3</u>
Combined	31	0.94	0.92	1.17	1.22	5.2	6.3

affected the most, because they tend to hold the "blue chip" investments that are most affected by divestment. Growth-oriented managers would be less affected, but would face higher market risk (beta) and less diversification.

The growth and risk-oriented portfolios of most multimanager plans represent a substantially smaller part of the total fund than the core portfolio. With divestment, core managers would be forced either to hold larger amounts of securities not eliminated as a result of divestment or to select new companies from the Alternative Universe without changing the target portfolio characteristics.

If divestment makes it impossible for the core managers to hold to target investment characteristics, the plan administrator may have to compensate by requiring growth stock managers to lower their risk-taking. This would imply a complete restructuring of plan investments. How any particular manager would adjust is beyond our speculation, but the evidence cited above indicates that restructuring would not be simple or inexpensive.

One other factor should be considered. Many investment management and brokerage firms are part of or affiliated with companies on the divestment list. In particular, most of the largest, best capitalized and most frequently used brokerage and investment banking firms have contacts with South Africa. Use of the services of these organizations would presumably be prohibited under a divestment policy.

Fixed Income Management

The implications of divestment for fixed income portfolios are similar to those for equity portfolios—a smaller universe of corporate issues with lower average quality. At the end of 1983, the amount of outstanding corporate debt rated Baa or higher by Moody's approximated

\$300 billion. Of this, the 152 S&P 500 companies doing business with South Africa accounted for \$133 billion, or 44 per cent. The 152 replacement companies had only \$28 billion in outstanding debt at the end of 1983. The total amount of corporate debt available from the Alternative Universe was \$195 billion. This represents a 35 per cent reduction in the amount of corporate debt securities.

Furthermore, the corporate debt universe under divestment is of lower average quality. The companies that would be eliminated by divestment are larger, financially stronger and more diversified than the replacement companies. Table VII compares the original and replacement companies in terms of the distribution of corporate debt by Moody's ratings.

Ninety-two per cent of the securities that would be eliminated by divestment are rated Baa or better, versus only 72 per cent of the debt securities of the replacement companies. Fixed income managers subject to divestment will have substantially less corporate debt of investment grade available. They would have to accept lower quality bonds or compete for the remaining higher quality issues.

Table VII Corporate Debt Outstanding

Moody's Rating	South African- Related		Replacement Companies	
	Debt billions of dollars	% of Total	Debt billions of dollars	% of Total
Aaa	10.40	8	0.00	0
Aa	60.60	46	0.65	2
A	36.60	28	9.30	35
Baa	15.00	10	4.60	16
Ba	1.40	1	4.70	16
B	2.20	2	0.85	3
Caa	1.30	1	0.00	0
NR	5.50	4	7.90	28

Table VIII Effects on Commercial Paper Quality

Moody's Rating	No. of So. Afr. Related Companies	No. of Replacement Companies
Prime-1	91	29
Prime-2	20	14
Prime-3	3	0
Not Rated	0	0
	116	43

The effects of divestment on fixed income managers are softened, however, by the large supply of government issues available. At the end of 1983, government and corporate bonds outstanding amounted to approximately \$954 billion, only 12 per cent of which was related to South Africa. When government debt is included, 85 per cent of the debt securities free of South African influence are rated Baa or higher by Moody's. The effects of divestment would thus be felt most by managers who take advantage of higher yields from corporate issues and by managers who actively move from industry to industry to take advantage of yield spreads.

Cash Management

Cash management will be affected if managers are not permitted to purchase the commercial paper of companies doing business with South Africa or certificates of deposit of banks lending money to South African businesses or government agencies. Prime commercial paper is typically issued on an unsecured basis only by large, financially secure, diversified corporations, such as the companies on the divestment list. Most other companies are unable to issue commercial paper unless it is insured or guaranteed. Thus divestment would reduce the universe of companies issuing commercial paper and its average quality.

Table VIII shows the distribution of Moody's commercial paper ratings for the 152 companies on the divestment list and their replacements. Of the 116 eliminated companies, 78 per cent are rated Prime-1, whereas only 67 per cent of the replacement companies achieve that rating. Most importantly, of the 152 eliminated companies, 75 per cent are rated. Only 28 per cent of the replacements are even rated. Divestment would reduce substantially the commercial paper available to cash-equivalent managers.

If divestment prohibits managers from purchasing certificates of deposit from banks that make loans to South African companies or government agencies, 13 of the 15 largest banks and 64 smaller banks would be affected. Divestment would thus reduce the universe of available bank CDs to only CDs from smaller, less diversified banks, which would carry more default risk.

Conclusion

Divestment restrictions may have a substantial impact on the investment management activities of large portfolios. In general, the restrictions will increase investment risk, reduce investment and diversification opportunities, and increase the costs of research, trading and administration. And the larger the fund, the greater the impact will be. ■

Footnotes

1. Andrew Rudd, "Divestment of South African Equities: How Risky?" *The Journal of Portfolio Management*, Spring 1979.
2. Stanford Calderwood, Working paper and presentation to the Conference on South African Investment Policy, University of Michigan, December 1 and 2, 1983.
3. Robert A. Schwartz, Testimony before the Committee on Consumer and Regulatory Affairs, City Council, District of Columbia, March 4, 1983.
4. See, for example, Rolf W. Banz, "The Relationship Between Return and Market Value of Common Stocks," *Journal of Financial Economics*, March 1981; Marc R. Reinganum, "Abnormal Returns in Small Firm Portfolios," *Financial Analysts Journal*, March/April 1981; and Ivan L. Lustig and Philip A. Leinbach, "The Small-Firm Effect," *Financial Analysts Journal*, May/June 1983.
5. Stephen L. Nesbitt, "'Hot Money' Can Trip Up Fast-Track Advisory Firms—Stockpicker's Universe Contracts As Assets Grow," *Pension and Investment Age*, September 5, 1983.
6. "The Forbes/Wilshire 5000 Review," *Forbes*, ongoing.
7. *The Value Line Investment Survey* (New York: Value Line, Inc.).
8. Thomas F. Loeb, "Trading Cost: The Critical Link Between Investment Information and Results," *Financial Analysts Journal*, May/June 1983.
9. I/B/E/S (The Institutional Brokers Estimate System) is a service of Lynch, Jones & Ryan, New York.

ATTACHMENT II



National
Legal Center
for the Public Interest

DISINVESTMENT

Is it Legal?

Is it Moral?

Is it Productive?

AN ANALYSIS OF POLITICIZING INVESTMENT DECISIONS

by

JOHN H. LANGBEIN, PH.D., LL.B.

ROY A. SCHOTT, PH.D., LL.B.

and

ALBERT P. BRAUSTEIN, J.D.

Special Commentaries

by

WILLIAM C. MILLIKEN

Former Governor of Michigan

and

DEREK C. BOK

President of Harvard University

Introductions

by

THEODORE B. OLSON

Former Assistant U.S. Attorney General

II. THE DIFFICULTIES OF DIVERGENT INVESTING

Hurdle 1: What goals? Everyone involved with a pension fund agrees on at least one goal: protect retirement security. But if other goals are added, which? Consider goals actually proposed, mainly for state and local funds:

I. In-state investing—

- a) generally; or
- b) mortgages (or other investment in housing)—
 - 1) generally, and/or
 - 2) for public employees, and/or
 - 3) for senior citizens, and/or
 - 4) for low- and/or medium-income people, and/or
 - 5) rental housing, and/or
 - 6) cooperative housing, and/or
 - vii] rural housing, and/or
 - viii] neighborhood redevelopment;

¹⁰The Washington, D.C. projections are from the testimony of David Eager, director of Meideinger Asset Planning Services, consultant to the D.C. Retirement Board, before House Committee on D.C., Hearings on South African Investment, 98th Cong. 2d Sess. (Jan. 31, 1984), at 130, 141-2.

The data on total receipts and investment income for state and local funds are derived from U.S. Dept. of Commerce, Bureau of Census, *Finances of Employee-Retirement Systems of State and Local Governments*, and *id.*, *Finances of Selected Public Employee Retirement Systems* (various issues).

¹¹"It seems to me that no one really knows *how* to make money, but we all know how to lose it. Common sense and hard knocks teach all of us eventually that one cannot in expectation of satisfactory results or in good conscience serve two masters. It's hard enough to achieve satisfactory results when focusing all of one's energies on making money; it's almost impossible when at the same time one focuses on other objectives—no matter how laudable they may be."

From talk by ERISA Administrator Robert Monks, Dec. 7, 1984, Miami, Florida, on "Social Investing and Social Investing [sic]."

- c) small business; and/or
- d) venture capital; and/or
- e) industry in rural areas.
- II. Energy conservation—
 - a) generally, and/or
 - b) solar.
- III. Environmental protection.
- IV. Equal opportunity employment.
- V. Unionization.
- VI. Avoidance of alcohol, tobacco and defense industries (goals proposed less often for pension funds than for foundations and endowments.)
- VII. Avoidance of firms involved with—
 - a) South Africa or Southern Africa;
 - b) military activity in Northern Ireland;
 - c) Iran;
 - d) Libya;
 - e) Muslim countries generally (because of their treatment of women's rights);
 - f) Communist countries.

Hurdle 2: Which priorities? The above goals are so many and so varied that they bring to mind the child's problem in the candy store: "Which do I really want?" It may come as a surprise that 12 of those goals were proposed by a single group, Governor Jerry Brown's Public Investment Task Force in 1981. (It's hard to believe that the Task Force deliberately omitted Goals III-VII; maybe avoiding investments in defense contractors and alcohol is not an ethical imperative for California public funds, given that State's defense industry and vineyards—swords *and* plows.) A pending bill in New Jersey with important support in the legislature has a similar shopping list.

In fact, the child's quandary in the candy shop is easy compared to this selection or ranking problem, for what is to be done when the goals conflict? For example, Morgan Guaranty Bank is involved in South Africa but also is the first bank to support black business schools, is a leading lender to minority firms and a leading funder for redevelopment in New York ghettos. Avoid or favor buying their stock? Or: Grumman, the largest manufacturer of solar collectors and heaters, was involved in foreign payoff scandals and is a major defense contractor. Or: Atlantic Richfield, fined by the EPA for using leaded gasoline in company cars designed for unleaded only, has been singled out by the Council on Economic Priorities as the leading oil company in pollution control. Buy? Avoid? Punt?

Hurdle 3: Who decides? Fiduciaries have control of other people's money for one reason: they are believed to be capable and trustworthy to further the purpose of the fund in question, be that purpose retirement security or educational or charitable activity. They may or may not have any expertise on divergent goals. Their views about such goals may or may not be shared

by many or all or even any of the beneficiaries of the trust, and certainly they were not made trustees to further their own social or political views. This is a crucial distinction between such trustees, and legislators or other elected public officials. (Many state or local teachers', police and firefighters' funds have some elective trustees, but obviously such persons are selected with a single goal in mind.)

It is blatant abuse of trust for trustees selected to further a specified, shared goal, to use their power for personal goals. And if personal goals are pursued to the financial detriment of the trust fund, then the line fades between this conduct and plain embezzlement.

Hurdle 4: How decide? This dichotomy between shared goals and personal goals is not meant to suggest that the only proper goal is the fund's financial gain. Most obviously, compliance with law is required and expected: if a corporation is in sustained, flagrant violation of law, avoiding its stock seems unobjectionable and, I believe, desirable.¹² But slippery slopes are avoided by setting up specific signposts. For example, J.P. Stevens a few years ago was found guilty not merely of repeated, on-going unfair labor practices but even repeated contempts of court, and until its commendable change of course, was the leading labor relations outlaw in the nation. For a collectively bargained pension fund, it would be hard to take seriously any objection to avoiding that stock. But for any trust, such a stock could be avoided for several reasons. First, in the J.P. Stevens instance there was no lack of clarity, or difficulty in determining the degree and uniqueness of the corporate illegality, so there were no information costs or burdens of arguing about the specific situation. Second, there was no lost opportunity or other investment cost, since that particular investment could easily be replaced; the case would be very different were the corporate culprit IBM or GE, but those firms' being guilty of such sustained illegality seems so unlikely that we can leave such a question until, if ever, it arises.

How different the proposition that, for example, a fund should invest only in unionized companies: such a sweeping limit would keep a fund from holding almost any high technology stock, likely inflicting serious losses of investment earnings. But it would be wrong to rush to a sweeping proposition against sweeping propositions. To bar all alcohol and tobacco stocks, for example, has little or no investment implications (because of the modest capitalization involved unlike, say, oil stocks); however, such a ban might reflect shared views in some beneficiary groups, such as a church endowment, but not in others, such as a pension fund with diverse participants. Or, even if there is clear consensus on a divergent goal—say, a state pension fund's favoring investment in firms with in-state employees—one must always determine the investment implications. For New York's funds such a preference would probably make no discernible difference in which secu-

¹²The New Jersey Investment Council has adopted a new standard for its \$13-billion-asset holdings: "good corporate citizenship." Annual Report 1984, p. 11.

rities are held, but for North Dakota, a preference for in-state investing would shrivel fund earnings and drive up pension costs, driving up taxes and injuring economic development instead of aiding it. I remember one small State's pension investment officer's saying that the only thing worse than not investing in-state, is investing in-state and losing.

In short, the specific facts of different proposed divergent investments make some of them desirable, some acceptable, and some injurious or unfair abuse of trust. If there is doubt about whether an investment is prudent, it is unquestionably wrong to go forward, since so many clearly prudent alternatives are available. Similarly, if there is doubt whether a divergent goal (even one which is not injurious financially) commands the necessary overwhelming concurrence of the beneficiaries, then it is improper to pursue such a goal.

What of polling the beneficiaries about whether they want to pursue X divergent goal? Polling has legal limits, certainly has some costs and possibly large ones, and usually is unfeasible. It would be legal to follow poll results if all beneficiaries agree, but it would be illegal to delegate to a mere majority the trustees' responsibility to pursue the shared interest of all beneficiaries. Polling would be costly if the beneficiaries are numerous. And often polling would be unfeasible because the issue is so complex or requires just such investment understanding as to exemplify why we have trustees in the first place. Further, even if one assumed a clear issue and an adequately comprehending group of beneficiaries, the likelihood is that polling secures only such low participation as to preclude any confidence about the degree of agreement. For example, when South Africa divestment (even if that were clear and understood) for the University of Oregon's endowment was put to student vote there in 1977, almost 95% of the voters supported divestment. But the total number of voters was under 10% of the university's 16,000 students, not even counting the future students for whose benefit such funds exist and who would be affected far more by any new investment policy than the voting students who would be gone before the policy took hold.

Perhaps the clearest indication of the difficulty and divisiveness surrounding this question of *how* to choose any divergent goal, is the fact that Gov. Brown's Task Force divided 23-7 on whether to have California public funds take even so modest a step as submitting proxy proposals upon request of only 10,000 participants (or 10%).¹³

Hurdle 5: The lack of information—corporate responsibility and irresponsible responses by institutional investors: Investment decisions are made on the basis of an enormous flow of audited, comparable, continuing data on corporate performance. An entire profession of financial analysts brings trained, experienced expertise to bear on such information. A few

¹³Final Report (Oct. 1981) at 54, 62-3.

nonfinancial goals present no information difficulty, for example, avoiding alcohol or tobacco stocks (although even that is not so easy since the development of corporate conglomeration). But if a portfolio manager must decide whether a corporation has at least 1,000 employees in the state; or worse, whether it is engaged in "doing business in or with South Africa" (the restriction in Massachusetts and several others places); or still worse, whether it does more than SX of such business (the threshold in the Oregon Board of Higher Education resolution is \$500,000) . . . in all such instances, the difficulties are huge. The fact that "there is no systematic method for obtaining and evaluating information about the activities and practices of companies in which the funds invest" is deemed one of the prime reasons "the current decision-making framework [for divergent investing] appears inadequate," according to one of the best studies advocating divergent investing.¹⁴ A similar study, done by an able organization for a California state agency, also emphasized "the incomplete and preliminary nature of much of the data available"—"a prerequisite for development of a coherent ethical investment policy for just these two issues [EEO and involvement with South Africa] requires the gathering of sufficient data upon which informed judgment can be based."¹⁵

The data gap does not mean pension fund managers cannot find out about General Electric's relations with EEOC, or General Motors' relations with OSHA. But how decide whether GE or GM is notably good, or notably bad, without employing some standard of comparison? Without comparable data, investment decisions on non-financial grounds risk being inaccurate (and therefore unfair) as well as ineffective; Company A might look good or bad on, say, equal employment, only as long as one doesn't know how others in its industry or its geographic area are performing. Producing responsible analyses in this area is a considerable task involving substantial costs.¹⁶

The problem of timely data is pointed up by the fact that months before release of that able group's report for California, listing Coca-Cola as a "bad" investment because of its activity in South Africa without agreeing to

¹⁴Coltman & Metzenbaum, *Investing in Ourselves* (Mass. Social & Economic Opportunity Council Task Force, June 1979), at 29.

¹⁵Council on Economic Priorities, *A Study of Investment Practices and Opportunities* (1980), at 68, 144, 159-60.

¹⁶The Council on Economic Priorities' study of political influence and lobbying by military contractors cost \$75,000; its study of nuclear power's impact on job creation (in one locale!) cost \$292,000; its much-praised study of paper companies' pollution practices cost \$50,000 (and that was back in 1969-1970).

Although responsible "social performance" data are costly, they can be developed and certainly I join in believing they should be. But this will occur only if groups, instead of seeking publicity about being "socially responsible," try to implement that goal by joining with major companies and major institutional investors, to bring us social performance data that could be used to supplement financial analysis. We need the economies of scale if such data are to be sound and routinely available, the *only* way such data can be used properly and maybe matter.

the Sullivan Principles, Coca-Cola had switched its position—in response to a shareholder proposal—and signed the Principles. Worse, as late as 18 months after that switch, the group was still handing out a summary with Coca-Cola at the top of the list of sinners, without even oral correction in at least one large meeting, presumably in many.

In short, the goals can be pursued only at information costs which themselves injure net investment results; or cannot be pursued; or can be pursued only incompletely and episodically, producing efforts to reward corporate responsibility or punish corporate irresponsibility on bases that are closer to random than to prudence.

Hurdle 6: Inviting conflicts of interest: To the extent that the divergent investments are aimed to benefit—or bring pressure on—firms or ventures situated in the same locality or industry as the pension fund, consider what kinds of investments are likely to occur: those with political appeal, and often those that raise acute conflicts of interest. If a construction union invests in mortgages to finance a construction project on which its members will have jobs, can we be confident that the projects will be selected by neutral criteria? If state and local pension funds are to invest in local projects, then (once we abandon the discipline of seeking market returns) won't there be enormous maneuvering for the pension fund dollars, with politics replacing market return as the determinant? Fiduciaries who are faithless or unclear about their duty can always find ways to use trust assets to their own benefit.

Politics are the right measure of who gets into office and how public policy issues are resolved. Contrast the safeguards surrounding political decisions (pork-barrel or not) as against what will happen when the bees gather around the pension fund honey pot. Not even the strongest and most representative pension board will have as much independence, as much political balance of countervailing forces, as a legislature. And rarely if ever would a pension fund investment decision have as much public visibility and relative comprehensibility as decisions being forged in the legislature.

Hurdle 7: How hold the fiduciaries accountable? When the only goal is maximizing investment returns at a prudent level of risk, evaluating how well the trustees have done (in setting investment policy and selecting and overseeing the money managers) is easy. Not as easy as measuring the size of a room, but we have recognized methods and expert, independent firms to evaluate investment performance. How do we evaluate the portfolio managers' performance, if we diverge from traditional prudent investing with its sole focus on investment return? How evaluate success or failure in furthering the divergent goals? In short, the pension fund engaging in divergent investing is likely to become captive to whatever interests have muscle—whatever form their strength may take—to shape the choice of divergent goals and the selection of specific investments. As everyone who has ever dealt with money managers knows well, however strong or weak

their investment performance, they are always deft at salesmanship. When performance is not strong, they will unfailingly explain that it was not their own limitations but the result of . . . whatever scapegoats are available.

If trustees cannot evaluate their money managers and the beneficiaries cannot evaluate their trustees, there is no accountability. Accountability is the only effective safeguard against self-serving, negligent or incompetent fiduciaries.

Hurdle 8: For all those difficulties and costs and risks, in anything gained? Possibly. But usually not, even when prudent financial standards are put aside in favor of hidden subsidies for the divergent goal, as exemplified by numerous union and public funds' special mortgage investing during recent periods of scarce mortgage financing (see below, section III.B). And where prudent financial standards are maintained and investments are made on market terms, many observers believe that our capital markets operate so efficiently that the favored divergent goal ends up with no more support than it would have gotten anyway.¹⁷ Since I believe our markets are essentially efficient but less than wholly so, I am confident that there may be gains even if, for example, a state fund makes in-state mortgage investments on market terms, especially if it does so in periods when very little mortgage money is available.

If greater emphasis is to be placed on local investing or other new criteria, two simple steps will assure both protection of retirement security and effective pursuit of the collateral goals. First, the public fund should never buy privately placed securities (or other investments) in which its stake is larger than 50% at maximum, with the balance being purchased on the same terms by other tax-exempt institutions. That assures against investments resulting from improper influence, and also against inadequate analysis. Second, public funds themselves lack adequate staff or expertise to go beyond recognized investment criteria. New York's Comptroller Edward

¹⁷See Langbein, § 5, above. See also Litvak, *Pension Funds and Economic Renewal*, at 13 ("Development Investing in Name Only") (Council of State Planning Agencies, 1981); and see my *Should Pension Funds be Used to Achieve "Social" Goals*, 119 *Trusts & Estates* 26, at 26-27 (Nov. 1980; last of three parts, Sept.-Nov. 1980). The foolishness of trying to use pension investments as a tool for economic development is pointed up by the catchily-entitled 1978 book "The North Will Rise Again," aimed at reviving New England and the upper midwest by local investing of local funds. The book was a good read as fiction; its unreality is analyzed at 119 *Trusts & Estates* 22, n. 8 (Sept. 1980). New England has risen again remarkably, but the "driving force has been education. We have 260 colleges in New England, 65 in the Boston area alone. It's been the wellspring of our entrepreneurship." Bank of Boston's chief economist James Howell explaining New England's gain of 222,000 jobs between 1975-80, *Wall St. Journal*, *New England's Big Recovery: The 'Most Spectacular' Event [in the history of Western capitalism]?*, Dec. 18, 1984, p. 37.

Localizing pension investing also runs the risk of retaliation by local funds elsewhere. San Antonio's well known Mayor Henry Cisneros warned New York City businessmen of this, assuring them he did not feel venetful but that a popular bumper sticker in his region was "Forget the 55-mile-per-hour speed limit—drive 60 and freeze a Yankee." *New York Times*, *Sun Belt 'Revenge'*, January 27, 1982.

V. Regan has proposed that more local investing can be done and done well if state agencies expert at, e.g., development, will assemble packages of appropriate investments and bring them to groups of private and public institutional investors.

Last, the sheer indirectness of many of the efforts to invest to pursue divergent goals, must be faced. For example, there are a few small mutual funds (long in business but never significant in asset size) aimed at "socially responsible" investing. Pax World Fund, sponsored by officials of the United Methodist Church, is always mentioned and is obviously aimed at a goal we all share. But how much peace is promoted by a fund averaging \$3 million (never over \$13 million in its 13 years)? It has produced results for the firm operating it, an annual expense ratio of about 1.6%, unequaled by few if any other mutual funds. It has produced poor investment returns, an annual average of 11.9% for five years, compared to 13.2% for the average similar fund (Lipper, balanced funds). Wouldn't everyone involved (except the firm managing the fund) be better off with direct contributions to charities working for peace or, say, feeding and educating children the world over?

B. South Africa-Involved Investments

1. Factual context

We may take it as a fact that Americans abhor apartheid. I personally am certain as a matter of morality, politics and history, that American companies cannot "do business as usual" involving South Africa, and that American investors cannot do investing as usual in South Africa-involved firms.

The question is not whether any steps shall be taken, but only what steps may help move the situation away from the abhorrent.

Institutional investors have been involved in more controversy over this issue than any other non-financial one. Some spontaneous efforts and some nationally organized ones have arisen in periodic waves since 1961 on many college campuses and, since about 1980, in several state legislatures and city councils. Many foundations, churches and charitable organizations have also grappled with this issue. Much more than on the other issues noted in this paper, there is here overwhelming rhetoric and unusual impatience to consider facts. And no other issue generates such emotion—and, on unfortunate occasions, such racial divisions—as this one.

Since 1961, when student drives for divestment began, U.S. firms' fixed investment in South Africa has risen about 50 times. Even adjusted for inflation, so great a rise indicates to some people that the divestment drive is farcically futile, to others that it is needed more than ever. As of 1982, U.S. firms' fixed investment there was \$2.3 billion, just at cost values;²⁰ that is about 17% of all foreign fixed investment, about 3% of all investment

²⁰This was down from \$2.6 billion two years earlier, according to the U.S. Commerce Dept. Some may attribute the drop to divestment pressures, others may attribute it to the depressed state of the economy in 1981-2 in both countries, and to straight-forwardly commercial decisions to withdraw, like Chrysler's.

there.²¹ In addition, our financial institutions had loaned over \$3.6 billion to South African borrowers, and U.S. investors were estimated to hold about \$8 billion of shares in South African firms, bringing the total U.S. financial stake there to over \$14 billion, second to Great Britain's. In contrast, total South African assets in the U.S. were estimated to be only \$200 million as of 1978. Our exports to South Africa totaled \$1.4 billion in 1979, \$2.45 billion in 1980, \$2.9 billion in 1981, \$2.36 billion in 1982 and \$2.11 billion in 1983. That means about 60,000 jobs in the U.S.; each \$1 billion of U.S. exports supports about 28,000 jobs here.²² We have unilaterally embargoed arms sales to South Africa since 1962, and have sold nothing there for nuclear power operation. Our imports from South Africa include 82% of our platinum, 87% of our vanadium, 48% of our chrome, 45% of our manganese, 13% of our gold and 67% of our industrial diamonds. We are South Africa's third largest trading partner, after Japan and Great Britain.

As for how many U.S. companies do business in South Africa, not only is there constant flux but different sources report substantially different figures, wildly different in one major instance.

- One authoritative source, Arthur D. Little, Inc. in October 1984 named 281 companies, including at least 31 with 10 or fewer employees; but the report noted also that as many as 40 more were believed to belong in the list, bringing the total to about 320.²³

- The most thorough study of the investment ramifications of divestment, published in December 1984 by a major investment firm managing a "South Africa-free" portfolio for the District of Columbia Retirement System, listed 229 companies.²⁴

- But a month later, the authoritative Investor Responsibility Research Center published a list with over 287 companies.²⁵

- Another investment study (February 1983) by a major investment firm managing such a portfolio for Michigan State University, listed about 270 companies.²⁶

²¹Unless otherwise indicated, the US-SA data are from Davis, Cason and Hovey, *Economic Disengagement and South Africa: The Effectiveness and Feasibility of Implementing Sanctions and Divestment*, 15 *Law & Pol. Int'l. Bus.* 529 (1983) (advocating divestment) and Chettle, *The Law and Policy of Divestment of South African Stock*, *id.* at 445 (*contra*).

²²Export data from U.S. Dept. Commerce. Job figure from U.S. Dept. Commerce, *Int'l. Trade Admin., Export Factsheet* (Dec. 20, 1982).

²³Eighth Report on the Signatory Companies to the Sullivan Principles, pp. 2, 12 and 42-4 (1984).

²⁴Wagner, Emkin and Dixon (of Wilshire Associates), *South African Divestiture: The Investment Issues*, *Financial Analysts Journal* 14 (Nov.-Dec. 1984).

²⁵IRRC Directory of U.S. Companies with Operations in South Africa (1985).

²⁶Trinity Investment Management Corp., *Structuring Portfolios from a South Africa Free Universe* (Feb. 1983).

- But one month later, the District of Columbia's study by a major pension consulting firm listed 201 companies.²⁷

- And that same year, three advocates of divestment said "approximately 6,000 U.S. companies do business in South Africa," relying on the most prestigious study, "Report of the [Rockefeller Foundation] Study Commission on U.S. Policy Toward Southern Africa: Time Running Out."²⁸

Two points emerge. First, while a core of companies maintain a presence in South Africa, many others come and go, acquiring subsidiaries and selling them, so that even a fund determined to avoid South Africa-involved companies must either compromise significantly in light of information difficulties, or risk highly imprudent portfolio turnover and costs—or both.

Second, does it make sense to treat a company maintaining a presence in South Africa, regardless of size or amount of business, as more supportive of apartheid than a company with no office or employees there but making major imports or exports? For example, Boeing has fewer than 10 employees in South Africa; considering its products, does its presence matter less than, say, Coca-Cola? If Boeing had no office in South Africa but still sold planes there, wouldn't it still matter a great deal? GM and Ford have plants in South Africa, but the leading sellers of cars there are the Japanese. Does it make any sense to divest GM and Ford stock, but allow unrestrained investing in South Africa's leading trading partners, Japan and Great Britain? What of the New York Times, Washington Post and American Broadcasting company, with offices there but not even Sullivan Signatories? (They may be distinguishable, though *Time* and I doubt it.) How can the advocates of blunderbuss divestment attack companies that are in South Africa, almost none of them doing even 1% of their business there, but at the same time allow investing in American companies importing from South Africa or using—and so keeping up the price—of South Africa's platinum, vanadium, manganese, chrome, and gold? And, after all, how allow investing in the securities of the most important American institution involved with South Africa, the U.S. Government?

Clearly, the determined South Africa-free investor ends up either keeping

²⁷Meidinger Asset Planning Services, D.C. Special Investment Study: South Africa Proposal (March 31, 1983).

While there were earlier efforts to analyze divestment's investment implications, they (except for Trinity's, *supra* n. 26, and perhaps unpublished ones) either utterly ignored relative riskiness, liquidity, manageability, etc.; or treated such crucial aspects only with a verbal acknowledgment, or only in part; or were simply superficial. For example, one published in 1979 was "heavily qualified" by its author in testimony later that same year because "important procedural, legal and economic implications have not been examined." *BNA Pension Reporter*, Dec. 17, 1979, p. A-19, reporting on Andrew Rudd's testimony about his Divestment of South African Equities: How Risky?, *J. Portf. Mgt.* (Spring 1979), p. 5. -

²⁸The Commission was chaired by Ford Foundation President Franklin A. Thomas; it was published in 1981 by Univ. Calif. Press. The 1983 article using the 6,000 figure is Davis, Cason and Hovey, *supra*, n. 21.

money in the mattress or making major compromises, questionable not merely in policy and logic but also in fairness. Dubious compromises become indefensible if more sensible alternatives to absolutism are available and being used.

ATTACHMENT III

EXCERPT: THE REGENTS REPORT OF THE UNIVERSITY OF CALIFORNIA --
TREASURER'S REPORT ON SOUTH AFRICAN INVESTMENTS -
JUNE 1985

Regarding divestment itself, many doubt whether selling a company's stocks and bonds is an effective mechanism for communicating policy recommendations to a company's management. When an institution sells, or divests, that block of securities merely passes from one holder to another or to several others. While there could be a temporary drop in the stock's price (if a large block of securities were sold quickly, with few interested buyers in the market), there would be no adverse effect on the company itself, unless it were trying to raise capital at the time by selling new shares in the market. In addition, by divesting, that shareholder has relinquished all further control it might have exerted over the company's conduct, and, in fact, its shares could be purchased by investors with little or no interest in such matters. Also, public pension and university endowment funds represent less than one-fifth of the total shares held in companies on the New York Stock Exchange; to be truly effective, all corporate plans, individual shareholders, insurance companies, mutual funds, and foreign investors would also have to be persuaded to divest.

Clifton R. Wharton, Jr., Chancellor of the State University of New York and Chairman of the Board of The Rockefeller Foundation, strongly believes that U.S. companies should withdraw from South Africa, but

feels "stock divestiture is at best a simplistic symbolism ... Aside from their brief publicity value, divestiture campaigns inflict no 'punishment' on South Africa."

He goes on to suggest that to have any real meaning, such a gesture must be supported by a total boycott of all products either manufactured by companies doing business in South Africa or made from minerals the U.S. purchases from South Africa. This would affect almost every area of our daily lives, from typing papers on IBM word-processors, to washing with Palmolive soap, to wearing diamond rings and gold jewelry, to drinking Coke and Pepsi. Few people are prepared to undertake such a challenge, no matter how sincere their intentions.

Apart from all economic and political goals, there are those who favor divestment as a purely moral gesture, believing that any involvement with an immoral system is in itself immoral. They believe South Africa should be held up as a pariah, totally isolated from world affairs until apartheid is dismantled. However, there is considerable sentiment against this type of statement as simply a "washing of America's dirty hands", which serves only to assuage one's own conscience and does nothing to improve the situation itself. Many of the institutions in our survey expressed this sentiment in formulating their policies. Responding to the divestment argument that it is inappropriate for a university to rely upon earnings so "tainted" by their source, Yale University wrote:

"It is our belief that U.S. based companies have an opportunity to improve the situation in South Africa and as a shareholder, Yale is in a position to urge a company to use that opportunity. If Yale simply sells its holdings in such a company, it loses its standing to raise ethical questions regarding social responsibility."

ATTACHMENT IV

DIVESTMENT POLICIES OR ACTIONS OF VARIOUS STATE
INVESTMENT BOARDS AND RETIREMENT SYSTEMS

<u>Institution</u>	<u>Size of Fund</u>	<u>% Invested in Cos. Doing Business in South Africa</u>	<u>Divestment Action</u>			<u>Policy</u>
			<u>Amount</u>	<u>Type of Security</u>	<u>Year</u>	
New York City Employees' Retirement System	\$ 9.0 bill.	9%	passed a resolution for 5-year divestment plan to begin 11/85		P	Subject to the exception of companies whose activities in the Republic of South Africa or Namibia significantly promote efforts to abolish apartheid, and pending further legal and financial input, the System will divest itself and not invest thereafter in any companies that operate in the Republic of S.A. or Namibia or any banks that extend credit to their governments. Adherence to progress in executing The Sullivan Principles are used as a guideline for determining which companies will be sold.
New York State Teachers' Retirement System	\$13.8 bill.	20%	-0-			No written investment policies regarding South Africa; Proxy Committee votes in favor of companies supporting Sullivan Principles, but against measures calling for the company to withdraw from South Africa.
Oregon Public Employees' Retirement System	No details provided.		-0-			Opposed to social investing for political purposes.
Retirement System of Alabama	No information provided		-0-			

<u>Institution</u>	<u>Size of Fund</u>	<u>% Invested in Cos. Doing Business in South Africa</u>	<u>Divestment Action</u>				<u>Policy</u>
			<u>Amount</u>	<u>Type of Security</u>	<u>Year</u>	<u>Full or Partial</u>	
Commonwealth of Pennsylvania State Employees' Retirement System	\$ 4.7 bill.	21%	-0-				Opposes divestment legislation currently before State Assembly. No specific South African policy, but Board votes on all questions and issues of community interest, moral and social concern.
Florida State Board of Administration	\$ 8.0 bill.	32%	-0-				Received legal opinion of General Counsel, confirmed by State Attorney General, that investment decisions must be made on financial, not social or ethical, criteria.
Maryland State Retirement and Pension Systems	\$ 4.7 bill.	16%	-0-				Completing a study at the request of state legislature.
Massachusetts State Employees' & Teachers' Retirement System & Pension Reserve Management Board	\$ 3.0 bill.	-0-	\$100 mill.	CD's	1984	F	Subject to State law prohibiting investments in companies that do business in South Africa.
Minnesota State Board of Investments	\$ 8.0 bill.	20%	-0-				Opposed past divestment legislation due to concern over expected negative financial impact. Board does vote for shareholder resolutions regarding companies' policies in South Africa and may consider sponsoring their own resolutions in the future.

PUBLIC FUNDS

<u>Institution</u>	<u>Size of Fund</u>	<u>% Invested in Cos. Doing Business in South Africa</u>	<u>Divestment Action</u>			<u>Policy</u>
			<u>Amount</u>	<u>Type of Security</u>	<u>Year</u>	
State of Ohio Public Employees' Retirement System	\$ 9.5 bill.	N.A.	-0-			Opposed to social investing.
State of Washington Investment Board	\$ 5.8 bill.	17%	-0-			Believes divestment clearly violates trust common law and the prudent person law and has passed a motion in response to divestment legislation that states "the Board is opposed to any legislation which divests or prohibits investments that are not in the best economic interests of the beneficiaries".
State of Wisconsin Investment Board	\$ 7.5 bill.	28%	-0-			Opposes legislation currently before State House Ways and Means Committee requiring divestment over a three-year period.
State Teachers' Retirement System of California	\$13 bill.	N.A.	-0-			Social criteria, to the extent available, should be considered after all financial criteria have been satisfied. When there is evidence of grave social injury and all other remedies to correct its practices or policies have failed, divestment or no new investment should be considered, if consistent with sound investment practice.

<u>Institution</u>	<u>Size of Fund</u>	<u>% Invested In Cos. Doing Business in South Africa</u>	<u>Assets</u>	<u>Divestment Decision</u>	<u>Full or Partial</u>	<u>Policy</u>
				<u>Type of Security</u>	<u>Year</u>	
State of California Public Employees' Retirement System	\$24.4 bill.	50% of equity portfolio 20% of bond portfolio	-0-			The Board expects companies who operate in countries where serious human rights violations occur to work toward elimination of those violations through every reasonable and legally permissible means. Should satisfaction of the Board's criteria by any company not be adequate, it will consider what actions to take, including shareholder resolutions, or as a last resort liquidation of holdings, if sale is consistent with sound investment policy.
State of Georgia Retirement Systems	\$ 6.5 bill.	17%	-0-			Opposed to pending divestment legislation as a "violation of the basic trust relationship that exists between the Fund's Trustees and the ultimate beneficiaries".
State of Michigan Employees' Retirement System						State of Michigan is not subject to state law forcing divestment. Would not report any information in reply to our letter but has made some sales of securities, based on selective divestment-type of policy.
State of New Jersey Division of Investment	\$12.7 bill.	20%	-0-			Operates under the State's prudent man rule; recognizes that good corporate citizenship enhances the financial prospects for a corporation, and conversely, that poor corporate citizenship detracts from such prospects. South African issues are considered on a case-by-case basis, with compliance to The Sullivan Principles one factor in their determination.