



**MARYLAND
STATE RETIREMENT
and PENSION SYSTEM**

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R. Dean Kenderdine
Executive Director
Secretary To The Board

September 29, 2010

Honorable Edward J. Kasemeyer
Acting Chair, Budget & Taxation Committee
Miller Senate Office Building, 3 West
11 Bladen Street
Annapolis, MD 21401

Honorable Nathaniel J. McFadden
Senate Chair, Joint Committee on Pensions
Miller Senate Office Building, Room 422
11 Bladen Street
Annapolis, MD 21401

Honorable Norman H. Conway
Chair, Appropriations Committee
House Office Building, Room 121
6 Bladen Street
Annapolis, MD 21401

Honorable Melony G. Griffith
House Chair, Joint Committee on Pensions
House Office Building, Room 207
6 Bladen Street
Annapolis, MD 21401

Dear Chairmen Kasemeyer, Conway, McFadden, and Griffith:

As required by the 2008 Divestiture from Iran and Sudan Act (the "Act"), I am submitting the required semi-annual report for the period April 1, 2010 through September 30, 2010 (the "Reporting Period"). This report, prepared by the State Retirement and Pension System, describes the actions taken by the System as a result of the Act, which is codified at State Personnel and Pensions Article §21-123.1(g) under the provisions of Chapter 342 of the Acts of 2008 (SB 214). The report is submitted in accordance with the State Government Article §2-1246 of the Annotated Code of Maryland. The report designation is MSAR #6882.

The Act requires that the Board of Trustees review its investments to determine "the extent to which funds in eligible accounts are invested in companies doing business in Iran or Sudan." The Act states that the Board shall divest itself of any company doing business in Iran or Sudan, or in any security issued by Iran or Sudan, and may not make any new investments in any company that is doing business in Iran or Sudan; provided, however, that the Act does not require the Board of Trustees to take action unless the Board of Trustees determines, in good faith, that the action is consistent with the fiduciary responsibilities of the Board of Trustees as described in the State pension article. In addition, the Act requires that the Board submit a report describing its compliance with the Act to the Senate Budget and Taxation and House Appropriations Committees as well as the Joint Committee on Pensions semi-annually.

This report includes the following:

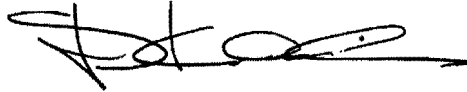
1. a summary of correspondence with companies engaged by the Board of Trustees during the Reporting Period;
2. all divestment actions taken by the Board of Trustees during the Reporting Period in accordance with the Act;

September 29, 2010
Page Two

3. a list of companies doing business in Iran or Sudan which the Board of Trustees has determined to be ineligible for investments of net new funds under the terms of the Act; and
4. other developments relevant to investment in companies doing business in Iran or Sudan.

Should you require additional information please call me at (410) 625-5600.

Sincerely,

A handwritten signature in black ink, appearing to read 'R. Dean Kenderdine', written over a horizontal line.

R. Dean Kenderdine
Secretary to the Board

Attachment

RDK/vw

cc: The Honorable Thomas V. Mike Miller, Jr.
The Honorable Michael E. Busch
Warren Deschenaux
Board of Trustees

Maryland State Retirement and Pension System
Implementation of the 2008 Divestiture from Iran and Sudan Act
(Annotated Code of Maryland, State Personnel and Pensions Article, § 21-123.1)
As of September 30, 2010

The 2008 Divestiture from Iran and Sudan Act (the "Act") requires the Board of Trustees of the Maryland State Retirement and Pension System (the "Retirement System") to submit semi-annual reports to the Senate Budget and Taxation and House Appropriations Committees as well as the Joint Committee on Pensions regarding the Retirement System's implementation of the Act, which is codified at SPP § 21-123.1 of the Annotated Code of Maryland.

The Act requires that the Board of Trustees of the Retirement System (the "Board of Trustees") review its investments to determine "the extent to which funds in eligible accounts are invested in companies doing business in Iran or Sudan." An "eligible account" is an actively managed separate account. The Act states that the Board of Trustees shall divest itself of any company doing business in Iran or Sudan, or in any security issued by Iran or Sudan, and may not make any new investments in any company that is doing business in Iran or Sudan; provided, however, that the Act does not require the Board of Trustees to take action unless the Board of Trustees determines, in good faith, that the action is consistent with the fiduciary responsibilities of the Board of Trustees as described in the State pension article.

This is the required semi-annual report for the period commencing April 1, 2010 and ending September 30, 2010 (the "Reporting Period"), and includes the following:

- 1) A summary of correspondence with companies engaged by the Board of Trustees during the Reporting Period;
 - 2) All divestment actions taken by the Board of Trustees in accordance with the Act during the Reporting Period;
 - 3) A list of companies doing business in Iran or Sudan which the Board of Trustees has determined during the Reporting Period to be ineligible for investments of net new funds under the terms of the Act; and
 - 4) Other developments relevant to investment in companies doing business in Iran or Sudan.
- 1. A summary of correspondence with companies engaged by the Board of Trustees during the Reporting Period.**

The Retirement System has engaged the Social Investment Research Service of Institutional Shareholder Services ("ISS SIRS"), a subsidiary of RiskMetrics Group, to periodically provide a list of companies doing business in Iran and/or Sudan ("Focus List"), and to manage the engagement process for the Retirement System. ISS SIRS provided a Focus List dated as of June 30, 2010. In July 2010, ISS SIRS sent letters to all of the companies that had been added to the list and were held in any account at June 30, 2010. The letters described the requirements of the Act and the information ISS SIRS had regarding the company's activities in either country, and directed the companies to respond.

As of the end of the Reporting Period, there were 12 companies on the Focus List held in eligible accounts (See list in Section 4.B.). The Board of Trustees will continue to monitor the activities of the identified companies.

2. All divestment actions taken by the Board of Trustees during the Reporting Period.

The Board of Trustees took divestment action with regard to 50 companies during the Reporting Period. See Section 3 of this report.

3. Companies doing business in Iran or Sudan which the Board of Trustees has determined during the Reporting Period to be ineligible for investments of net new funds under the terms of the Act.

At its meeting on September 21, 2010, the Board of Trustees determined that the following 50 companies are not eligible for investment and directed the managers of eligible accounts be notified of the restriction on investment.

<u>OPERATING IN SUDAN OR IRAN?</u>	<u>COMPANY NAME</u>	<u>BUSINESS ACTIVITY as defined in SPP 21-123.1 (S = Sudan; I = Iran)</u>	<u>COUNTRY</u>
Sudan	Alstom	Power production	France
Sudan	AREF Investment Group S.A.K.	Oil related	Kuwait
Sudan	Areva S.A.	Oil related	India
Sudan	Arzamasskiy mashinostroitel'niy zavod OAO	Production of military equipment	Russia
Sudan	AviChina Industry & Technology Co Ltd	Production of military equipment	China
Sudan	Bharat Heavy Electricals Limited	Oil related	India
Iran, Sudan	China Petroleum & Chemical Corporation	S-Oil related I- Invest grtr than \$20 million	China
Iran	Costain Group PLC	Invest grtr than \$20 million	UK
Iran	Daelim Industrial Co.,Ltd.	Invest grtr than \$20 million	Korea
Sudan	Dongfeng Motor Group Company Limited	Production of military equipment	China
Iran	Edison SpA	Invest grtr than \$20 million	Italy
Sudan	Egypt Kuwait Holding Co (SAE)	Oil related	Egypt
Sudan	El Sewedy Cables Co	Oil related	Egypt
Sudan	Finmeccanica SpA	Oil related	Italy
Iran	GAIL (India) Limited	Invest grtr than \$20 million	India

<u>OPERATING IN SUDAN OR IRAN?</u>	<u>COMPANY NAME</u>	<u>BUSINESS ACTIVITY as defined in SPP 21-123.1 (S = Sudan; I = Iran)</u>	<u>COUNTRY</u>
Iran	GS Engineering & Construction Corporation	Invest grtr than \$20 million	Korea
Sudan	Harbin Power Equipment Co Ltd	Oil related	China
Iran	Hyundai Heavy Industries Co., Ltd.	Invest grtr than \$20 million	Korea
Sudan, Iran	Indian Oil Corporation Ltd.	S - Oil related I - Invest grtr than \$20 million	India
Iran	Inpex Corporation	Invest grtr than \$20 million	Japan
Iran	JGC Corporation	Invest grtr than \$20 million	Japan
Sudan	Jinan Diesel Engine Co Ltd	Oil related	China
Sudan	Kejuruteraan Samudra Timur Bhd	Oil related	Malaysia
Sudan	Kencana Petroleum Bhd	Oil related	Malaysia
Sudan	Korea Plant Service & Engineering Co Ltd	Oil related	Korea
Sudan, Iran	KunLun Energy Company Limited	S - Oil related I - Invest grtr than \$20 million	China
Sudan	La Mancha Resources Inc	Oil related	Canada
Iran	Liquefied Natural Gas Ltd	Invest grtr than \$20 million	Austria
Sudan	LS Industrial Systems Co., Ltd	Oil related	Korea
Sudan	Mangalore Refinery & Petrochemicals Ltd	Oil related	India
Iran	Midciti Resources Sdn Bhd	Invest grtr than \$20 million	Malaysia
Sudan, Iran	MISC Berhad	S - Oil related I - Invest grtr than \$20 million	Malaysia
Iran	Mitsui Engineering & Shipbuilding Co.,Ltd.	Invest grtr than \$20 million	Japan
Sudan	Nam Fatt Corporation Berhad	Oil related	Malaysia
Sudan	Norinco International Cooperation Ltd	Production of military equipment	China
Sudan, Iran	Oil and Natural Gas Corporation Limited	S - Oil related I - Invest grtr than \$20 million	India
Sudan	Oil India Ltd	Oil related	India
Sudan, Iran	PetroChina Company Limited	S - Oil related I - Invest grtr than \$20 million	China
Sudan	Petrofac Ltd	Oil related	UK
Sudan, Iran	Petronas Dagangan Bhd	S - Oil related I - Invest grtr than \$20 million	Malaysia

<u>OPERATING IN SUDAN OR IRAN?</u>	<u>COMPANY NAME</u>	<u>BUSINESS ACTIVITY as defined in SPP 21-123.1 (S = Sudan; I = Iran)</u>	<u>COUNTRY</u>
Sudan, Iran	Petronas Gas Berhad	S - Oil related I - Invest grtr than \$20 million	Malaysia
Sudan	Ranhill Berhad	Oil related	Malaysia
Sudan	Scomi Engineering Berhad	Oil related	Malaysia
Sudan	Scomi Group Berhad	Oil related	Malaysia
Sudan	Seadrill Limited	Oil related	Norway
Sudan, Iran	Sinopec Kantons Holdings Ltd.	S - Oil related I - Invest grtr than \$20 million	China
Sudan	Sinopec Shanghai Petrochemical Company Limited	Oil related	China
Iran	Snam Rete Gas S.p.A.	Invest grtr than \$20 million	Italy
Sudan	Sudan Telecommunication Co Ltd	Production of military equipment	Sudan
Sudan	Waertsilae Oyj Abp	Oil related	Finland

In addition to the 50 companies named above, the Board of Trustees also has taken divestment action with respect to Royal Dutch Shell plc, in the fall of 2009.

4. Other developments relevant to investments in companies doing business in Iran or Sudan.

- A. In discharging their responsibilities under the Act, the Board of Trustees and its Corporate Governance Committee receive and review information gathered through the engagement process, as well as input from (i) the System's external investment managers, (ii) Ennis Knupp, the System's general investment consultant, (iii) legal counsel and (iv) staff of the Investment Division.

The information presented to the Board of Trustees and its Corporate Governance Committee considers a wide array of factors, including:

1. Explicit/initial and implicit/ongoing divestment costs on both an individual and aggregate level;
2. Company impact on aggregate, fund-level returns and managers; and
3. Representation of companies in the relevant investment benchmarks, including:
 - i. Representation of companies in sectors and industries; and
 - ii. Representation of companies in various countries.

- B. After weighing the totality of the information that was presented to the Board of Trustees, the Board concluded that a decision not to divest the following 12 companies whose securities are held in eligible accounts would, at the present time, be consistent with the fiduciary responsibilities of the Board of Trustees.

<u>OPERATING IN SUDAN OR IRAN?</u>	<u>COMPANY NAME</u>	<u>BUSINESS ACTIVITY as defined in SPP 21-123.1</u>	<u>COUNTRY</u>
Iran	Air Liquide SA	Invest grtr than \$20 million	France
Iran	Aker Solutions ASA	Invest grtr than \$20 million	Norway
Iran	CNOOC Ltd	Invest grtr than \$20 million	China
Iran	ENI SpA	Invest grtr than \$20 million	Italy
Iran	OAQ "Gazprom"	Invest grtr than \$20 million	Russia
Iran	OMV Aktiengesellschaft AG	Invest grtr than \$20 million	Austria
Iran	Repsol YPF	Invest grtr than \$20 million	Spain
Iran	Saipem S.p.A.	Invest grtr than \$20 million	Italy
Iran	Sasol Limited	Invest grtr than \$20 million	S. Africa
Iran	Statoil, Statoilhydro ASA	Invest grtr than \$20 million	Norway
Iran	Technip	Invest grtr than \$20 million	France
Sudan	Total S.A.	Oil related	France

The Board of Trustees will continue to monitor the activities of these companies.

- C. ISS has informed the System that the 14 companies identified below are no longer doing business in either Sudan or Iran, and has removed them from the Focus List:

<u>OPERATING IN SUDAN OR IRAN?</u>	<u>COMPANY NAME</u>	<u>BUSINESS ACTIVITY as defined in SPP 21-123.1</u>	<u>COUNTRY</u>
Sudan	Bharat Heavy Electricals Ltd.	Electrical equipment	India
Sudan	Bollere	Electrical equipment	France
Sudan, Iran	CNPC Hong Kong Ltd.	Oil related	Bermuda
Sudan	Dietswell	None	France
Sudan	Electricity Generating Public Co Ltd	None	Thailand
Sudan	I.C.S.A (INDIA) LTD	Oil related	India
Iran	Lukoil Oao	Oil related	Russia
Sudan	MMC Corporation Bhd	Mining	Malaysia
Sudan	Muhibbah Engineering (M) Bhd	Engineering	Malaysia
Sudan	PECD BHD	Oil related	Malaysia
Sudan	PSL Ltd.	Oil related	India
Sudan	Reliance Industries Ltd.	None	India

<u>OPERATING IN SUDAN OR IRAN?</u>	<u>COMPANY NAME</u>	<u>BUSINESS ACTIVITY as defined in SPP 21-123.1</u>	<u>COUNTRY</u>
Iran	Samsung Engineering Co. Ltd.	Engineering equipment	South Korea
Sudan	Schlumberger Ltd.	Oil related	Netherlands Antilles

The System's external investment managers are permitted to purchase securities issued by these 14 companies.

- D. The Board of Trustees recognizes that it has a continuing monitoring and reporting obligation. ISS SIRS is providing ongoing monitoring services, and the Corporate Governance Committee will continue to be assisted by Ennis Knupp, State Retirement Agency staff and legal counsel in reviewing matters regarding the Act.