



MARYLAND
STATE RETIREMENT
and PENSION SYSTEM

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R. Dean Kenderdine
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September 30, 2011

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

Honorable Verna L. Jones-Rodwell
Senate Chair, Joint Committee on Pensions
Miller Senate Office Building, Room 420
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, Jones-Rodwell, 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, 2011 through September 30, 2011 (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;

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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,



R. Dean Kenderdine
Secretary to the Board

Attachment

RDK/js

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, 2011

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, 2011 and ending September 30, 2011 (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 MSCI, Inc. 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, 2011. In August 2011, 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, 2011. 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 nine 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 four additional 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 20, 2011, the Board of Trustees determined that the following 58 companies are not eligible for investment and directed that 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>HOME COUNTRY</u>
Sudan	AREF Investment Group S.A.K.	Oil related	Kuwait
Sudan	Arzamasskiy mashinostroitel'niy zavod OAO	Production of military equipment	Russia
Sudan	ASEC Company for Mining (ASCOM) SAE	Mineral extraction activities	Egypt
Sudan	AviChina Industry & Technology Co Ltd	Production of military equipment	China
Sudan	Bharat Heavy Electricals Limited	Oil related	India
Sudan	Chennai Petroleum Corporation Limited	Oil related	India
Sudan	China Avic Avionics Equipment Co., Ltd.	Production of military equipment	China
Iran, Sudan	China Petroleum & Chemical Corporation	I - Invest grtr than \$20 million; S - Oil related	China
Iran	Cong Ty Co Phan Kinh Doanh Khi Hoa Long Mien Nam	Invest grtr than \$20 million	Vietnam
Iran	Costain Group PLC	Invest grtr than \$20 million	UK
Iran	Daelim Industrial Co.,Ltd.	Invest grtr than \$20 million	Korea
Sudan	Daqing Huake Company Limited	Oil related	China
Sudan	Dongfeng Motor Group Company Limited	Production of military equipment	China
Iran	Edison SpA	Invest grtr than \$20 million	Italy

<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>HOME COUNTRY</u>
Sudan	Egypt Kuwait Holding Co (SAE)	Oil related	Egypt
Sudan	El Sewedy Cables Co	Oil related	Egypt
Sudan	Electricity Generating Public Company Limited	Power production activities	Thailand
Sudan	Hafei Aviation Industry Co., Ltd	Power production activities	China
Sudan	Harbin Power Equipment Co Ltd	Oil related	China
Iran, Sudan	Indian Oil Corporation Ltd.	I - Invest grtr than \$20 million; S - Oil related	India
Sudan	Jiangxi Hongdu Aviation Industry Co., Ltd.	Production of military equipment	China
Sudan	Jinan Diesel Engine Co Ltd	Oil related	China
Sudan	KingDream Public Limited Company	Oil related	China
Sudan	KLCC Property Holdings Berhad	Oil related	Malaysia
Sudan	Korea Plant Service & Engineering Co Ltd	Oil related	Korea
Iran, Sudan	KunLun Energy Company Limited	I - Invest grtr than \$20 million; S - Oil related	China
Iran, Sudan	Lanka IOC PLC	I - Invest grtr than \$20 million; S - Oil related	India
Sudan	LS Industrial Systems Co., Ltd	Power production activities	Korea
Sudan	Malaysia Marine and Heavy Engineering Holdings Bhd	Oil related	Malaysia
Sudan	Managem Sa	Mineral extraction activities	Morocco
Sudan	Mangalore Refinery & Petrochemicals Ltd	Oil related	India
Iran, Sudan	MISC Berhad	I - Invest grtr than \$20 million; S - Oil related	Malaysia
Sudan	Nam Fatt Corporation Berhad	Oil related	Malaysia
Sudan	Norinco International Cooperation Ltd **	Production of military equipment	China
Sudan	OAo "Kamaz"	Production of military equipment	Russia
Iran	OAo energetiki i elektrifikatsii "Mosenergo"	I - Invest grtr than \$20 million	Russia
Iran, Sudan	Oil and Natural Gas Corporation Limited	I - Invest grtr than \$20 million; S - Oil related	India
Sudan	Oil India Ltd	Oil related	India
Iran, Sudan	PetroChina Company Limited	I - Invest grtr than \$20 million; S - Oil related	China
Iran, Sudan	Petronas Chemicals Group Bhd	I - Invest grtr than \$20 million; S - Oil related	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>HOME COUNTRY</u>
Iran, Sudan	Petronas Dagangan Bhd	I - Invest grtr than \$20 million; S - Oil related	Malaysia
Iran, Sudan	Petronas Gas Berhad	I - Invest grtr than \$20 million; S - Oil related	Malaysia
Iran	Petrovietnam Fertilizer And Chemicals Corp	Invest grtr than \$20 million	Vietnam
Iran	Petrovietnam Investment Consultancy And Engineering Joint Stock Co	Invest grtr than \$20 million	Vietnam
Iran	Petrovietnam Transportation Corporation	Invest grtr than \$20 million	Vietnam
Sudan	PT Elnusa Tbk	Oil related	Indonesia
Sudan	Ranhill Berhad	Oil related	Malaysia
Sudan	Scomi Engineering Berhad	Oil related	Malaysia
Sudan	Scomi Group Berhad	Oil related	Malaysia
Iran, Sudan	Sinopec Kantons Holdings Ltd.	I - Invest grtr than \$20 million; S - Oil related	China
Sudan	Sinopec Shanghai Petrochemical Company Limited	Oil related	China
Iran	Sinopec Yizheng Chemical Fibre Company Limited	I- Invest grtr than \$20 million S-Oil related	China
Iran	Snam Rete Gas S.p.A.	Invest grtr than \$20 million	Italy
Sudan	Societe Metallurgique d'Imiter	Mineral extraction activities	Morocco
Sudan	Sudan Telecommunication Co Ltd	Production of military equipment	Sudan
Iran	SunPower Corporation	Invest grtr than \$20 million	USA
Sudan	Waertsilae Oyj Abp	Oil related	Finland
Iran	Welspun Corp Limited	Invest grtr than \$20 million	India

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 country's investment benchmarks.

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 9 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
Sudan	Atlas Copco AB	Mineral extraction activities	Sweden
Iran	CNOOC Ltd	Invest grtr than \$20 million	China
Iran	ENI SpA	Invest grtr than \$20 million; in process of withdrawing	Italy
Iran	Gazprom OAO	Invest grtr than \$20 million	Russia
Iran	Sasol Limited	Invest grtr than \$20 million	S. Africa
Iran	Siemens AG-Reg	Invest grtr than \$20 million	Germany
Iran	Statoil, Statoilhydro ASA	Invest grtr than \$20 million; in process of withdrawing	Norway
Iran	Total S.A.	Invest grtr than \$20 million; in process of withdrawing	France

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

C. ISS has informed the System that the 15 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	Alstom	Power production activities	France
Sudan	Areva S.A.	Oil related	India
Sudan	Engineers India Ltd	Oil related	India
Sudan	Finmeccanica SpA	Oil related	Italy

<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	GS Engineering & Construction Corporation	Invest grtr than \$20 million	Korea
Iran	INA-Industrija nafte d.d	Invest grtr than \$20 million	Hungary
Sudan	Intertek Group plc	Oil related	Great Britain
Sudan	Kejuruteraan Samudra Timur Bhd	Oil related	Malaysia
Sudan	Kencana Petroleum Bhd	Oil related	Malaysia
Sudan	La Mancha Resources Inc	Oil related	Canada
Iran	OMV Petrom S.A.	Invest grtr than \$20 million	Romania
Sudan	ONA S.A.	Oil related	Morocco
Iran	Royal Dutch Shell Plc	Invest grtr than \$20 million	UK
Sudan	Uzma Berhad	Oil related	Malaysia
Sudan	Wuhan Boiler Co Ltd	Power production activities	China

The System's external investment managers are permitted to purchase securities issued by these companies. Based on the ISS Focus Lists used by the System for its semi-annual reporting, the total number of companies that have stopped doing business in either Iran or Sudan since the enactment of the 2008 Divestiture from Iran and Sudan Act is 43.

- 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.