MARYLAND
STATE RETIREMENT
and PENSION SYSTEM

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September 28, 2012

Honorable Edward J. Kasemeyer
Chair, Budget & Taxation Committee
Miller Senate Office Building, 3 West
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 Verna L. Jones-Rodwell
Senate Chair, Joint Committee on Pensions
Miller Senate Office Building, Room 420
11 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, 2012 through September 30, 2012 (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;

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, 2012

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, 2012 and ending September 30, 2012 (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, 2012. In August 2012, The System directed ISS SIRS to send letters to all of the companies that had been added to the list and were held in any account at June 30, 2012. 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 two (2) 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 three (3) 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, 2012, the Board of Trustees determined that the following 25 companies are not eligible for investment and directed that managers of eligible accounts be notified of the restriction on investment.

OPERATING IN SUDAN OR IRAN?	COMPANY NAME	BUSINESS ACTIVITY as defined in SPP 21-123.1	HOME COUNTRY
Sudan	AREF Energy Holding Company KSCC	Oil related	Kuwait
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
Iran	China Communications Construction Co., Ltd.	Investment greater than $20 million	China
Iran	Daelim Industrial Co.,Ltd.	Investment greater than $20 million	Korea
Sudan	Dongfeng Motor Group Company Limited	Production of military equipment	China
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

OPERATING IN SUDAN OR IRAN?	COMPANY NAME	BUSINESS ACTIVITY as defined in SPP 21-123.1	HOME COUNTRY
Sudan	GAZ OAO or OAO GAZ	Oil related; Production of military equipment	Russia
Sudan	Harbin Power Equipment Co Ltd	Oil related	China
Iran	Hyundai Heavy Industries	Investment greater than $20 million	Korea
Sudan	Indian Oil Corporation Ltd.	Oil related	India
Sudan	Jiangxi Hongdu Aviation Industry Co., Ltd.	Production of military equipment	China
Sudan	Kuwait Finance House	Oil and mineral extraction activities	Kuwait
Sudan	LS Industrial Systems Co., Ltd	Power production activities	Korea
Iran	Maire Tecnimont S.p.A.	Investment greater than $20 million	Italy
Sudan	Managem Sa	Mineral extraction activities	Morocco
Sudan	Oil and Natural Gas Corporation Limited	Oil related	India
Sudan	Oil India Ltd	Oil related	India
Iran	Shanghai Zhenhua Heavy Industry Co., Ltd	Investment greater than $20 million	China
Sudan	Waertsilae Oyj Abp (Wartsila Oyj)	Oil related	Finland

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) Hewitt EnnisKnupp, 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 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 2 companies whose securities are held in eligible accounts would, at the present time, be consistent with the fiduciary responsibilities of the Board of Trustees.

OPERATING IN SUDAN OR IRAN?	COMPANY NAME	BUSINESS ACTIVITY as defined in SPP 21-123.1	HOME COUNTRY
Iran	Gazprom OAO	Investment greater than $20 million	Russia
Iran	Siemens AG-Reg	Investment greater than $20 million	Germany

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

C. ISS has informed the System that the 34 companies identified below are no longer doing business in either Sudan or Iran, and has removed them from the Focus List:

OPERATING IN SUDAN OR IRAN?	COMPANY NAME	BUSINESS ACTIVITY as defined in SPP 21-123.1	HOME COUNTRY
Iran	Air Liquide	Investment greater than $20 million	France
Iran	Atlas Copco	Investment greater than $20 million	Sweden
Sudan	Chennai Petroleum Corporation Limited	Oil related	India
Iran	China Oilfield Services Limited	Investment greater than $20 million	China
Both	China Petroleum & Chemical Corporation	Investment greater than $20 million (I); Oil related (S)	China
Iran	CNOOC LTD	Investment greater than $20 million	China
Sudan	Daqing Huake Company Limited	Oil related	China
Iran	ENI SpA	Investment greater than $20 million	Italy
Both	Jinan Diesel Engine Co Ltd	Investment greater than $20 million	China

OPERATING IN SUDAN OR IRAN?	COMPANY NAME	BUSINESS ACTIVITY as defined in SPP 21-123.1	HOME COUNTRY
Sudan	Korea Electric Power Company	Oil related; Power production	Korea
Sudan	Korea Plant Service & Engineering Co Ltd	Oil related; Mineral extraction activities	Korea
Both	Lanka IOC PLC	Investment greater than $20 million (I); Oil related (S)	India
Iran	Malaysia Marine and Heavy Engineering Holdings Bhd	Investment greater than $20 million	Malaysia
Sudan	Mangalore Refinery & Petrochemicals Ltd	Oil related	India
Both	MISC Berhad	Investment greater than $20 million (I); Oil related (S)	Malaysia
Sudan	Muhibbah Engineering Bhd	Oil related, Mineral extraction activities	Malaysia
Iran	OAO energetiki i elektrifikatsii Mosenergo	Investment greater than $20 million	Russia
Both	PetroChina Company Limited	Investment greater than $20 million (I); Oil related (S)	China
Both	Petronas Chemicals Group Bhd	Investment greater than $20 million (I); Oil related (S)	Malaysia
Both	Petronas Dagangan Bhd	Investment greater than $20 million (I); Oil related (S)	Malaysia
Both	Petronas Gas Berhad	Investment greater than $20 million (I); Oil related (S)	Malaysia
Iran	Petrovietnam Fertilizer And Chemicals Corp	Investment greater than $20 million	Vietnam
Iran	Petrovietnam Investment Consultancy And Engineering Joint Stock Co	Investment greater than $20 million	Vietnam
Iran	Petrovietnam Transportation Corporation	Investment greater than $20 million	Vietnam
Iran	Rosier SA	Investment greater than $20 million	Belgium
Iran	Sasol Limited	Investment greater than $20 million	South Africa
Sudan	Scomi Engineering Berhad	Oil related	Malaysia
Sudan	Scomi Group Berhad	Oil related	Malaysia
Iran	Snam Rete Gas S.p.A.	Investment greater than $20 million	Italy
Sudan	Societe Metallurgique d'Imiter	Mineral extraction activities	Morocco
Iran	Statoil, Statoilhydro ASA	Investment greater than $20 million	Norway
Sudan	Sudan Telecommunication Co Ltd	Production of military equipment	Sudan
Iran	SunPower Corporation	Investment greater than $20 million	USA

OPERATING IN SUDAN OR IRAN?	**COMPANY NAME**	**BUSINESS ACTIVITY as defined in SPP 21-123.1**	**HOME COUNTRY**
Iran	Total S.A.	Investment greater than $20 million	France

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 94.

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 Hewitt EnnisKnupp, State Retirement Agency staff and legal counsel in reviewing matters regarding the Act.