

MARYLAND
STATE RETIREMENT
and PENSION SYSTEM

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R. Dean Kenderdine
Executive Director
Secretary To The Board

March 31, 2014

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 October 1, 2013 through March 31, 2014 (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;

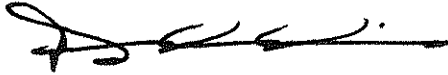
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3. a list of companies doing business in Iran or Sudan which the Board of Trustees has determined to be ineligible for investments of net new funds under the terms of the Act; and
4. other developments relevant to investment in companies doing business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

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 March 31, 2014

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 October 1, 2013 and ending March 31, 2014 (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 Institutional Shareholder Services (“ISS”), 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 provided a Focus List dated as of December 31, 2013.

As of the end of the Reporting Period, there were no companies on the Focus List held in eligible accounts. See Section 3 of this report.

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

The Board of Trustees took no new divestment action 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 March 18, 2014, the Board of Trustees determined that the following 26 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</u> | <u>HOME COUNTRY</u> |
|--|---|---|-------------------------|
| 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 Company Limited | Investment greater than \$20 million; petroleum related | China |
| Both | China National Petroleum Corporation | Investment greater than \$20 million; petroleum related (Iran); Oil related (Sudan) | China |
| Sudan | China Petroleum & Chemical Corporation | Oil related | China |
| Iran | Daelim Industrial Co., Ltd. | Investment greater than \$20 million; petroleum related | Korea |
| Sudan | El Sewedy Electric Co | Oil related | Egypt |
| Sudan | Energy House Holding Company | Oil related | Kuwait |
| Sudan | Harbin Power Equipment Co Ltd | Oil related | China |
| Iran | Hyundai Heavy Industries | Investment greater than \$20 million; petroleum related | Korea |
| Sudan | Jiangxi Hongdu Aviation Industry Co., Ltd. | Production of military equipment | China |
| Sudan | Kuwait Finance House | Oil related | Kuwait |
| Sudan | LS Industrial Systems Co., Ltd | Power production activities | Korea |
| Iran | Maire Tecnimont S.p.A. | Investment greater than \$20 million; petroleum related | Italy |
| Sudan | Managem S.A. | Mineral extraction activities | Morocco |

| <u>OPERATING IN SUDAN OR IRAN?</u> | <u>COMPANY NAME</u> | <u>BUSINESS ACTIVITY as defined in SPP 21-123.1</u> | <u>HOME COUNTRY</u> |
|--|---|---|-------------------------|
| Sudan | Oil and Natural Gas Corporation Limited | Oil related | India |
| Sudan | Oil India Ltd | Oil related | India |
| Sudan | Orca Gold Inc. | Mineral extraction activities | Canada |
| Sudan | Petroliaam Nasional Berhad | Oil related | Malaysia |
| Sudan | PT Pertamina (Persero) | Oil related | Indonesia |
| Sudan | Regency Mines PLC | Mineral extraction activities | UK |
| Sudan | Schneider Electric SA | Power production activities | France |
| Iran | Shanghai Zhenhua Heavy Industry Co., Ltd. | Investment greater than \$20 million; petroleum related | China |
| Sudan | Sirocco Energy | Oil related | Australia |
| Sudan | Statesman Resources Ltd | Oil related | Canada |

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. ISS has informed the System that one company, identified below, is no longer doing business in either Sudan or Iran, and has removed it 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>HOME COUNTRY</u> |
|--|---------------------|---|-------------------------|
| Iran | Gazprom OAO | Investment greater than \$20 million; petroleum related | Russia |

The System's external investment managers are permitted to purchase securities issued by this company. Based on the ISS Focus List 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 102.

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