



MARYLAND
STATE RETIREMENT
and PENSION SYSTEM

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R. Dean Kenderdine
Executive Director
Secretary To The Board

September 30, 2015

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

Honorable Douglas J. J. Peters
Senate Chair, Joint Committee on Pensions
120 James Senate Office Building
11 Bladen Street
Annapolis, MD 21401

Honorable Maggie McIntosh
Chair, Appropriations Committee
House Office Building, Room 121
6 Bladen Street
Annapolis, MD 21401

Honorable Benjamin S. Barnes
House Chair, Joint Committee on Pensions
151 House Office Building
6 Bladen Street
Annapolis, MD 21401

Dear Chairmen Kasemeyer, McIntosh, Peters, and Barnes:

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, 2015 through September 30, 2015 (the "Reporting Period"). This report, prepared by the Maryland 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,

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/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, 2015

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, 2015 and ending September 30, 2015 (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 MSCI ESG Research Inc. (“MSCI ESG”) 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. MSCI ESG provided a Focus List dated as of July 1, 2015.

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 September 15, 2015, the Board of Trustees determined that the following 21 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) S.A.E.	Mineral extraction activities	Egypt
Sudan	AviChina Industry & Technology Company Limited	Production of military equipment	China
Sudan	Bharat Heavy Electricals Limited	Oil related	India
Both	China National Petroleum Corporation	Investment greater than \$20 million; petroleum/gas related (Iran); Oil related (Sudan)	China
Iran	Daelim Industrial Company Limited	Investment greater than \$20 million; petroleum/gas related	Korea
Sudan	El Sewedy Electric Company	Oil related	Egypt
Sudan	Energy House Holding Company	Oil related	Kuwait
Sudan	Harbin Power Equipment Company Limited	Oil related	China
Sudan	Jiangxi Hongdu Aviation Industry Company Limited	Production of military equipment	China
Sudan	Kuwait Finance House	Oil related	Kuwait
Sudan	LS Industrial Systems Company Limited	Power production activities	Korea
Sudan	Managem S.A.	Mineral extraction activities	Morocco
Sudan	Oil and Natural Gas Corporation Limited	Oil related	India
Sudan	Oil India Limited	Oil related	India
Sudan	ONGC Videsh Limited	Oil related	India
Sudan	Orca Gold Incorporated	Mineral extraction activities	Canada
Sudan	Petroliam Nasional Berhad	Oil related	Malaysia
Sudan	Petronas Capital Limited	Oil related	Malaysia
Sudan	Petronas Global Sukuk Limited	Oil related	Malaysia
Sudan	Regency Mines PLC	Mineral extraction activities	UK
Sudan	Schneider Electric S.A.	Power production activities	France

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) Meketa Investment Group, Inc., 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. MSCI ESG has informed the System that two 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>HOME COUNTRY</u>
Iran	Hyundai Heavy Industries	Investment greater than \$20 million; petroleum/gas related	Korea
Sudan	PT Pertamina (Persero)	Oil related	Indonesia

The System’s external investment managers are permitted to purchase securities issued by these companies. Based on the MSCI ESG 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 110.

C. The Board of Trustees recognizes that it has a continuing monitoring and reporting obligation. MSCI ESG 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.