



MARYLAND
STATE RETIREMENT
and PENSION SYSTEM

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R. Dean Kenderdine
Executive Director
Secretary To The Board

October 1, 2018

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

Honorable Guy Guzzone
Senate Chair, Joint Committee on Pensions
121 James Senate Office Building
11 Bladen Street
Annapolis, MD 21401

Honorable Maggie McIntosh
Chair, Appropriations Committee
121 House Office Building
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, Guzzone, 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, 2018, through September 31, 2018 (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;

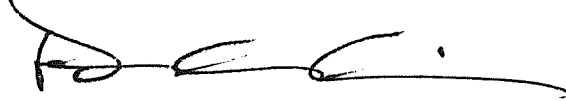
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3. a list of companies doing business in Iran or Sudan which the Board of Trustees has determined to be ineligible for investments of net new funds under the terms of the Act; and
4. other developments relevant to investment in companies doing business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

R. Dean Kenderdine
Secretary to the Board

Attachment

RDK/tv

cc: The Honorable Thomas V. Mike Miller, Jr.
The Honorable Michael E. Busch
Victoria L. Gruber
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, 2018

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, 2018 and ending September 30, 2018 (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, 2018.

As of the end of the Reporting Period, the Retirement System engaged with three companies that are noted by MSCI ESG as doing business in Iran or Sudan. The engagement was with the following companies:

ONGC Videsh Vankorneft
Siemens Financieringsmaatschappij
Siemens Aktiengesellschaft

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

The Board of Trustees added the following companies to the list of restricted companies.

Anton Oilfield Services
Oil India International PTE. LTD.
ONGC Videsh Vankorneft PTE. LD.
Siemens Aktiengesellschaft
Siemens Financieringsmaatschappij N.V.
Shanghai Electric Group Company Limited
Shanghai Electric Newage Company Limited
Sinopec Group Overseas Development (2012) Limited
Sinopec Group Overseas Development (2013) Limited
Sinopec Group Overseas Development (2014) Limited
Sinopec Group Overseas Development (2016) Limited

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 18, 2018, the Board of Trustees determined that the following 31 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 | Anton Oilfield Services | Oil related | China |
| Sudan | AviChina Industry & Technology Company Limited | Production of military equipment | China |
| Sudan | Bharat Heavy Electricals Limited | Oil related | India |
| Iran and Sudan | China National Petroleum Corporation | Investment greater than \$20 million; petroleum/gas related (Iran); Oil related (Sudan) | China |
| Iran | CNOOC Curtis Funding No. 1 PTY LTD | Oil related | Australia |
| Iran | Daelim Industrial Company Limited | Investment greater than \$20 million; petroleum/gas related | Korea |

| <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 | 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 International PTE. LTD | Oil related | Singapore |
| Sudan | Oil India Limited | Oil related | India |
| Sudan | ONGC Videsh Limited | Oil related | India |
| Sudan | Oil Videsh Vankorneft PTE. LTD. | Oil related | Singapore |
| 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 | Schneider Electric S.A. | Power production activities | France |
| Sudan | Shanghai Electric Group Company Limited | Power production | China |
| Sudan | Shanghai Electric Newage Company Limited | Power production | Hong Kong |
| Sudan | Siemens Aktiengesellschaft | Power production | Germany |
| Sudan | Siemens Financieringsmaatschappij N.V. | Power production | Netherlands |
| Iran and Sudan | Sinopec Group Overseas Development (2012) Limited | Oil related | British Virgin Islands |
| Iran and Sudan | Sinopec Group Overseas Development (2013) Limited | Oil related | British Virgin Islands |

| <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 and Sudan | Sinopec Group Overseas Development (2014) Limited | Oil related | British Virgin Islands |
| Iran and Sudan | Sinopec Group Overseas Development (2016) Limited | Oil related | British Virgin Islands |

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