

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)
Update – November 30, 2009

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.” 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.

The Retirement System submitted its first required semi-annual report on September 28, 2009. This report is an update to that initial filing, and includes the following:

- 1) a summary of correspondence with companies engaged by the Board of Trustees;
- 2) all divestment actions taken by the Board of Trustees in accordance with the Act;
- 3) a list of companies that the Board of Trustees has determined are doing business in Iran and Sudan; 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

The System engaged RiskMetrics Group to provide a list of companies doing business in Iran and/or Sudan, and to manage the engagement process. RiskMetrics sent letters to all of the companies (43 for Iran and 45 for Sudan), whether or not the System was presently a holder of securities issued by the company. The letters described the requirements of the 2008 Divestiture from Iran and Sudan Act (the “Act”) and the information RiskMetrics had regarding the company’s activities in either country, and directing the companies to respond. Seventeen companies responded.

As of October 30, 2009, there were 15 companies on RiskMetrics’ list held in “eligible accounts”. As more fully described below, one company has recently been divested. The Board of Trustees of the Maryland State Retirement and Pension System (the “Board of Trustees”) will continue to monitor the activities of the remaining identified companies.

2. All divestment actions taken by the Board of Trustees

The Corporate Governance Committee of the Board of Trustees was asked to evaluate the 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 Retirement Agency's Investment Division. At its meeting on October 20, 2009, the Board of Trustees received a report from the Corporate Governance Committee and decided to divest all securities issued by Royal Dutch Shell, PLC and its affiliates that were held in actively managed separate accounts. All the accounts that held such securities have completed the divestment action directed by the Board of Trustees.

3. Companies that the Board of Trustees has determined are doing business in Iran and Sudan. Note: With the exception of data concerning Royal Dutch Shell, PLC, all data is as of 9/30/09.

<u>OPERATING IN SUDAN OR IRAN?</u>	<u>COMPANY NAME</u> Note: Bold indicates a company whose securities are held in an actively managed separate account.	<u>INDUSTRY</u>	<u>COUNTRY</u>
Sudan	ABB LTD – Please see note in Section 4 below.	Heavy Electrical Equipment	Switzerland
Iran	AKER SOLUTION ASA	Construction & Engineering	Norway
Sudan	Alcatel Lucent	Communications Equipment	France
Both	Alstom	Heavy Electrical Equipment	France
Sudan	AREF Investment Group Co	Finance & Investment (Energy)	Kuwait
Sudan	Areva	Nuclear Power Company	France
Sudan	AviChina Industry & Technology	Oil & Gas Exploration & Production	Hong Kong
Sudan	Bharat Electronics Ltd	Defense communications	India
Sudan	Bharat Heavy Electricals Ltd.	Industrial Production (Energy)	India
Sudan	Bollore	Transportation	France
Both	China Petroleum & Chemical Corp.	Integrated Oil & Gas	Hong Kong
Iran	CNOOC, LTD.	Oil & Gas Exploration & Production	China
Both	CNPC Hong Kong Ltd.	Oil & Gas Exploration & Production	Bermuda
Iran	Costain Group PLC	Oil & Gas Construction & Engineering	United Kingdom
Iran	Daelim Industrial Co.	Industrial Conglomerate	South Korea

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Sudan	Dietswell	Oil & Gas Equipment & Services	France
Sudan	Dongfeng Motor Group Company Ltd	Construction & Farm Machinery & Heavy Trucks	Hong Kong
Iran	Edison Spa	Independent Power Producers & Energy Traders	Italy
Sudan	Egypt Kuwait Holding Company	Integrated Oil & Gas	Egypt
Sudan	Electricity Generating Public Co Ltd	Independent Electricity Producing Company.	Thailand
Iran	ENI, LTD.	Integrated Oil & Gas	Italy
Sudan	Finmeccanica SPA	Aerospace & Defense	Italy
Iran	GAZPROM	Integrated Oil & Gas	Russia
Iran	GS Engineering & Construction Ltd.	Oil & Gas Construction & Engineering	South Korea
Sudan	Harbin Power Equipment Co.	Energy Equipment & Services	China
Iran	Hyundai Heavy Industries Co.	Shipbuilding	South Korea
Sudan	I.C.S.A (INDIA) LTD	Electric Infrastructure	India
Both	Indian Oil Corporation Ltd	Oil, Gas & Consumable Fuels	India
Iran	Inpex Corporation	Oil & Gas Exploration & Production	Japan
Iran	JGC Corp.	Oil & Gas Construction & Engineering	Japan
Sudan	Kejuruteraan Samudra Timur BHD	Oil & Gas Construction & Engineering	Malaysia
Sudan	Kencana Petroleum Bhd	Oil & Gas Construction & Engineering	Malaysia
Sudan	La Mancha Resources Inc.	Oil & Gas Exploration & Production	Canada
Iran	L'AIR LIQUIDE	Industrial Gasses	France
Iran	Liquefied Natural Gas Ltd.	Oil & Gas Storage & Transportation	Australia
Iran	LUKOIL OIL COMPANY	Integrated Oil & Gas	Russia
Sudan	Lundin Petroleum AB	Oil & Gas Exploration & Production	Sweden
Sudan	Mangalore Refinery & Petrochemicals Ltd.	Integrated Oil & Gas	India
Both	MISC Berhad	Marine Engineering & Services	Malaysia
Iran	Mitsui Engineering & Shipbuilding Co. Ltd.	Construction & Farm Machinery & Heavy Trucks	Japan

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Sudan	MMC Corporation Bhd	Mining Engineering &Services	Malaysia
Sudan	Muhibbah Engineering Bhd	Marine Engineering &Services	Malaysia
Sudan	Nam Fatt Corporation Bhd	Engineering & Construction	Malaysia
Both	Oil & Natural Gas Corporation Ltd.	Oil, Gas & Consumable Fuels	India
Iran	OMV AG	Integrated Oil & Gas	Austria
Sudan	PECD BHD – Please see note in Section 4 below	Energy Services	Malaysia
Iran	PETROL BRASILEIROS – Please see note in Section 4 below	Integrated Oil & Gas	Brazil
Both	Petrochina Company Limited	Integrated Oil & Gas	China
Sudan	Petrofac Ltd	Integrated Oil & Gas	Jersey
Both	Petronas Dagangan Bhd	Integrated Oil & Gas	Malaysia
Both	Petronas Gas Bhd	Integrated Oil & Gas	Malaysia
Sudan	PSL Ltd.	Pipe Manufacturing	India
Sudan	Ranhill Bhd	Energy Equipment & Services	Malaysia
Sudan	Reliance Industries Ltd.	Industrial Conglomerate	India
Iran	REPSOL YPF SA – Please see note in Section 4 below	Integrated Oil & Gas	Spain
Iran	Royal Dutch Shell, PLC – HOLDINGS DIVESTED	Integrated Oil & Gas	United Kingdom
Iran	SAIPEM	Oil, Gas & Consumable Fuels	Italy
Iran	Samsung Engineering Co. Ltd.	Engineering & Services	South Korea
Sudan	Sarawak Energy Bhd	Energy Services	Malaysia
Iran	SASOL LTD	Oil & Gas Exploration & Production	South Africa
Sudan	Schlumberger Ltd.	Oil & Gas Equipment & Services	Netherlands Antilles
Sudan	Scomi Engineering Bhd.	Communications Equipment	Malaysia
Sudan	Scomi Group Bhd	Energy Services	Malaysia
Both	Sinopec Kantons Holdings Ltd	Oil & Gas Storage & Transportation	Hong Kong
Sudan	Sinopec Shanghai Petrochemical Co.	Commodity Chemicals	China
Iran	Snam Rete Gas S.p.A.	Gas Utilities	Italy
Iran	STATOILHYDRO ASA	Integrated Oil & Gas	Norway

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Sudan	Sudan Telecom Co. Ltd.	Communications	Sudan
Iran	TECHNIP	Oil & Gas Equipment & Services	France
Both	TOTAL SA	Oil, Gas & Consumable Fuels	France
Sudan	Wartsila Oyj	Industrial Machinery	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) 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 countries.
- B. The review conducted by the Board of Trustees has, thus far, focused on those companies whose securities are presently held in an actively managed separate account. With regard to these companies included in that review:
1. As noted above, a decision was made to divest the System’s holdings in securities issued by Royal Dutch Shell.
 2. It was determined that two companies had modified their business activities in Iran and/or Sudan and are consequently no longer appropriate for divestment consideration:
 - (a) ABB - ABB confirmed to both RiskMetrics Group and Agency staff that the company’s work on the Merowe Dam project “has

been completed or exited” and its withdrawal from Sudan “is complete”. Accordingly, at this time, the Board of Trustees does not believe that divestment action is warranted.

(b) Repsol – Repsol had three exploration blocks within Iran which the company had held since April 2001. The company reported to RiskMetrics Group that it had terminated its contractual relationships with the Iranian state-owned oil company regarding these three exploration blocks. Moreover, the company attests that its holdings in Iran are immaterial from both a quantitative and non-quantitative basis and currently no revenues or taxes are generated from Iran. Accordingly, at this time, the Board of Trustees does not believe that divestment action is warranted.

C. After weighing the totality of the information that was presented to it, the Board of Trustees concluded that a decision not to divest the 13 other companies whose securities are presently held in an actively managed separate account would, at the present time, be consistent with the fiduciary responsibilities of the Board of Trustees.

D. Other developments –

1. PECD BHD - RiskMetrics Group has recently informed Agency staff that PECD BHD is no longer doing business in Sudan. Agency staff will research this matter further and present information to the Board of Trustees’ Corporate Governance Committee for review.
2. Petrol Brasileiros - RiskMetrics Group has recently informed Agency staff that Petrol Brasileiros is no longer doing business in Iran. Agency staff will research this matter further and present information to the Board of Trustees’ Corporate Governance Committee for review.

E. With the assistance of Ennis Knupp, the System’s managers, Agency staff and legal counsel, the Board of Trustees will be reviewing the other companies listed in Section 3 of this report which it has determined are doing business in Iran and Sudan.

F. The Board of Trustees recognizes that it has a continuing monitoring and reporting obligation. RiskMetrics Group is providing ongoing monitoring services, and the Corporate Governance Committee will continue to be assisted by Ennis Knupp, Agency staff and legal counsel in reviewing matters regarding the Act.