

**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, 2010**

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.

This is the required semi-annual report for the period from October 1, 2009 – March 31, 2010 (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 to be ineligible for investments of net new funds under the terms of the Act during the Reporting Period; 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 RiskMetrics Group, 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 February 28, 2010. In early March 2010, ISS SIRS sent letters to all of the companies that were held in any account at February 28, 2010. 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 February 28, 2010, there were 13 companies on the Focus List held in “eligible accounts” (See list in Section 4.C). 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**

As noted in the Board of Trustees’ updated report dated November 15, 2009, the Retirement System divested its holdings in Royal Dutch Shell during the Reporting Period.

**3. 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 at its meeting on October 20, 2009.**

<u>OPERATING IN SUDAN OR IRAN?</u>	<u>COMPANY NAME</u>	<u>INDUSTRY</u>	<u>COUNTRY</u>
Iran	Royal Dutch Shell, PLC	Integrated Oil & Gas	United Kingdom

**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 during the Reporting Period focused on those companies whose securities were held in an actively managed separate account. With regard to these companies included in that review:

1. As noted in the Board of Trustees’ updated report dated November 15, 2009, a decision was made to divest the Retirement System’s holdings in securities issued by Royal Dutch Shell.
2. As noted in the Board of Trustees’ updated report dated November 15, 2009, 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:
  - i. ABB - ABB confirmed to both ISS SIRS and State Retirement 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.
  - ii. Repsol – Repsol had three exploration blocks within Iran which the company had held since April 2001. The company reported to ISS SIRS 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 information described in Section 4.A, the Board concluded that a decision not to divest the following 13 companies whose securities are held in eligible accounts (actively managed separate accounts) would, at the present time, be consistent with the fiduciary responsibilities of the Board of Trustees.

<b><u>OPERATING IN SUDAN OR IRAN?</u></b>	<b><u>COMPANY NAME</u></b>	<b><u>INDUSTRY</u></b>	<b><u>COUNTRY</u></b>
Iran	<b>AKER SOLUTION ASA</b>	Construction & Engineering	Norway
Iran	<b>CNOOC, LTD.</b>	Oil & Gas Exploration & Production	China
Iran	<b>ENI, LTD.</b>	Integrated Oil & Gas	Italy
Iran	<b>GAZPROM</b>	Integrated Oil & Gas	Russia
Iran	<b>L’AIR LIQUIDE</b>	Industrial Gasses	France
Iran	<b>LUKOIL OIL COMPANY</b>	Integrated Oil & Gas	Russia
Iran	<b>OMV AG</b>	Integrated Oil & Gas	Austria
Iran	<b>PETROL BRASILEIROS</b>	Integrated Oil & Gas	Brazil
Iran	<b>SAIPEM</b>	Oil, Gas & Consumable Fuels	Italy

<u>OPERATING IN SUDAN OR IRAN?</u>	<u>COMPANY NAME</u>	<u>INDUSTRY</u>	<u>COUNTRY</u>
Iran	<b>SASOL LTD</b>	Oil & Gas Exploration & Production	South Africa
Iran	<b>STATOILHYDRO ASA</b>	Integrated Oil & Gas	Norway
Iran	<b>TECHNIP</b>	Oil & Gas Equipment & Services	France
Both	<b>TOTAL SA</b>	Oil, Gas & Consumable Fuels	France

D. ISS SIRS has informed the Retirement System that the companies identified below are no longer doing business in either Sudan or Iran, and has removed them from the Focus List as of February 28, 2010:

<u>OPERATING IN SUDAN OR IRAN?</u>	<u>COMPANY NAME</u> Note: <b>Bold</b> indicates a company whose securities are held in an actively managed separate account.	<u>INDUSTRY</u>	<u>COUNTRY</u>
Sudan	<b>ABB LTD</b>	Heavy Electrical Equipment	Switzerland
Iran	<b>L'AIR LIQUIDE</b>	Industrial Gasses	France
Sudan	Lundin Petroleum AB	Oil & Gas Exploration & Production	Sweden
Iran	<b>PETROL BRASILEIROS</b>	Integrated Oil & Gas	Brazil
Sudan	Sarawak Energy Bhd	Energy Services	Malaysia

E. 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 Ennis Knupp, State Retirement Agency staff and legal counsel in reviewing matters regarding the Act.