





September 30, 2014

The Commonwealth of Pennsylvania has enacted legislation (Act 44 of 2010) requiring public funds to divest from companies doing business in Iran and/or Sudan that meet certain thresholds of activity. Additionally, Act 44 prohibits Pennsylvania's public funds from purchasing securities of a company once it appears on scrutinized business activities lists, regardless of whether the funds already have direct holdings in such company.

Act 44 requires that the public funds each year assemble and provide a report to the Governor, the President Pro Tempore of the Senate, the Speaker of the House of Representatives, and each member of the boards of the Pennsylvania Municipal Retirement System, the State Employees' Retirement System, and the Public School Employees' Retirement System. Accordingly, we have prepared this report on the activities our funds have undertaken to comply with the requirements of Act 44 during the period July 1, 2013 to June 30, 2014.

This report includes:

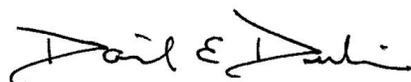
- The most recent scrutinized companies lists (Sudan and Iran).
- A summary of correspondence with scrutinized companies.
- All investments sold, redeemed, divested or withdrawn in compliance with Act 44, the costs and expenses of such transfers, and a determination of net gain or loss associated with such transactions executed in compliance with the Act.
- A list of publicly traded securities held by the public funds.

A copy of Act 44 of 2010 can be downloaded from Treasury's website at [www.patreasury.gov/divestment.html](http://www.patreasury.gov/divestment.html).

Sincerely,



Robert M. McCord  
Pennsylvania Treasurer



David Durbin  
Executive Director  
State Employees' Retirement System of Pennsylvania



Jeffrey Clay  
Executive Director  
Public School Employees' Retirement System of Pennsylvania



Stephen W. Vaughn  
Secretary  
Pennsylvania Municipal Retirement System

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## **Introduction**

On July 2, 2010, Governor Ed Rendell signed Act 44 of 2010 (hereafter “the Act” or “Act 44”). Act 44 requires that Pennsylvania’s public funds compile and publish lists of “scrutinized companies.” These lists comprise companies identified as having prohibited business operations in Iran or Sudan (as defined by Act 44). Furthermore, the Act prohibits Pennsylvania public funds from acquiring the securities of scrutinized companies in the future and requires them to divest the securities of scrutinized companies that fail to take action required by the Act with respect to their scrutinized activities within a specified period of time.

Because they face the same responsibilities, the Pennsylvania Treasury Department, the State Employees’ Retirement System, the Public School Employees’ Retirement System, and the Pennsylvania Municipal Retirement System (“the Four Funds”) have chosen to work together to comply with the Act. The Four Funds are coordinating their activities through the Pennsylvania Treasury Department.

This report is submitted on behalf of the Four Funds and has been prepared pursuant to the reporting requirements found in Act 44.

## Primary Requirements of Act 44

The Act imposes a number of primary requirements on the Four Funds:

- File a written report with the United States Attorney General detailing the requirements contained in the Act. ([Appendix A](#))
- Identify and publicly disclose the lists of all companies with scrutinized activities in Sudan or Iran. ([Table 1a](#), [Table 1b](#))
- Notify companies on the scrutinized lists of their status, that they may become subject to divestment by the public fund, and what they can do to avoid divestment. ([Table 4](#))
- Provide scrutinized companies with an opportunity to respond and provide additional information regarding their activities. ([Table 5](#), [Table 6](#))
- Refrain from new investment in any scrutinized company's securities. ([Table 2](#))
- Divest scrutinized companies' securities within 26 months if the companies do not announce, by public notification, significant action to cease scrutinized activities within 180 days of having been notified of their status. ([Table 7](#))
- Monitor scrutinized companies that announce substantial action (*i.e.*, cessation of prohibited business operations) in regards to Iran or Sudan to ensure compliance. ([Table 7](#))
- Provide an annual report to the Governor; the President Pro Tempore of the Pennsylvania Senate; the Speaker of the Pennsylvania House of Representatives; and each member of the boards of the Pennsylvania Municipal Retirement System, the State Employees' Retirement System and the Public School Employees' Retirement System.

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## Definition of a Scrutinized Company

Act 44 calls for the development of two lists of companies that meet specified statutory criteria. These companies are designated as "scrutinized companies" and are subject to the requirements detailed in the Act. A company can be designated as a scrutinized company for activities in either Iran or Sudan, or in both.

A scrutinized company is defined in the Act as:

- 1) Any foreign company that has:
  - i. Invested at least \$20,000,000 in oil-related activities in Iran in any 12-month period since August 5, 1996;
  - ii. Supplied military equipment to the government of Iran within the 12-month period prior to the effective date of the Act; or
  - iii. Knowingly and intentionally violated the United States export controls with respect to Iran during the 12-month period prior to the effective date of the Act.
- 2) Any foreign company that meets the criteria set forth either in subparagraph (i) or (ii), below:
  - i. The company has business activities that involve contracts with or provision of supplies or services to the government of Sudan, companies in which the government of Sudan has any direct equity share, government of Sudan-commissioned consortiums or projects, or companies involved in government of Sudan-commissioned consortiums or projects; and
    - a) More than 10% of the company's revenue or assets linked to Sudan involve oil-related activities or mineral extraction activities; less than 75% of the company's revenues or assets linked to Sudan involve contracts with or provision of oil-related or mineral extracting products or services to the regional government of southern Sudan or a project or consortium created exclusively by that regional government; and the company has failed to take substantial action specific to Sudan; or
    - b) More than 10% of the company's revenues or assets linked to Sudan involve power production activities; less than 75% of the company's power production activities include projects whose intent is to provide power or electricity to the marginalized populations of Sudan; and the company has failed to take substantial action specific to Sudan.

- ii. The company supplies military equipment within Sudan, unless it clearly shows that the military equipment cannot be used to facilitate offensive military actions in Sudan or the company implements rigorous and verifiable safeguards to prevent use of that equipment by forces actively participating in armed conflict, for example, through post-sale tracking of such equipment by the company, certification from a reputable and objective third party that such equipment is not being used by a party participating in armed conflict in Sudan, or sale of such equipment solely to the regional government of southern Sudan or any internationally recognized peacekeeping force or humanitarian organization.

The term does not include a foreign company that is a social development company, defined by Act 44 as: "A company whose primary purpose in Iran or Sudan is to provide humanitarian goods or services, including medicine or medical equipment; agricultural supplies or infrastructure; educational opportunities; journalism-related activities; information or information materials; spiritual-related activities; services of a purely clerical or reporting nature; food, clothing or general consumer goods."

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## Independence of South Sudan and Impact on Act 44

On July 9, 2011, the Republic of South Sudan became an independent and sovereign state, gaining independence from Sudan. The newly formed Republic of South Sudan consists of the regional government excluded from the Act 44 definition of the government of Sudan. The area constituting South Sudan has also been exempt from the trade embargo against Sudan originally declared by the U.S. government in 1997. The trade embargo was imposed due to Sudan's continued support for international terrorism, ongoing efforts to destabilize neighboring governments and multiple human rights violations.

Despite the creation of the new country, there remain several areas of concern regarding the region, including the reported ongoing violence in the Darfur region and the ongoing violence in the Southern Kordofan region.

Act 44 has a sunset clause that states:

A public fund shall have no obligations under this act with respect to a company engaged in business activities in Sudan upon the occurrence of any of the following:

- (1) The President or Congress of the United States declares Darfur genocide has been halted for at least 12 months.
- (2) Sudan does not appear on the list of State Sponsors of Terrorism.
- (3) The President or Congress of the United States declares that the government of Sudan has honored its commitments to cease attacks on civilians, demobilize and demilitarize the Janjaweed and associated militias, grant free and unfettered access for deliveries of humanitarian assistance and allow for the safe and voluntary return of refugees and internally displaced persons under the Sudan Accountability and Divestment Act of 2007 (P.L. 110-174, 121 Stat. 2516).
- (4) The President or Congress of the United States, through legislation or executive order, declares that mandatory divestment of the type provided for in this act interferes with the conduct of U.S. foreign policy.

The 2013 Country Report on Terrorism, released by the US Department of State to Congress in April 2014, reiterated Sudan's designation as a State Sponsor of Terrorism. None of the other three pre-conditions for ceasing public fund obligations regarding company activities in Sudan has occurred as of the time of this report.

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## **The Joint Plan of Action (JPOA) with Iran and Impact on Act 44**

In November 2013, the P5+1, a group of six world powers including United States, the United Kingdom, France, China, Russia, and Germany, drafted a Joint Plan of Action (JPOA) with Iran as a precursor to a potential long-term comprehensive solution to Iran's disputed nuclear program. The JPOA is an interim agreement implemented for an initial period of six months on January 20, 2014, and extended in July for four months to November 24, 2014. Under the terms of the agreement, Iran committed to a number of temporary measures, including a halt to enrichment above 5%, a freeze on enrichment capacity, and a reduction to its stockpile of enriched uranium, as well as enhanced monitoring and verification measures, in exchange for temporary and targeted sanctions relief.

As per the terms of the JPOA, the U.S. has provided limited sanctions relief relating to Iran's petrochemical, automotive, mineral and energy sectors. However, sanctions relief provided under the JPOA is by definition short-term and reversible, contingent on a permanent agreement. It is not yet clear whether a final nuclear agreement will be reached by November 24, 2014.

Act 44 has a sunset clause that states:

A public fund shall have no obligations under this act with respect to a company engaged in business activities in Iran upon the occurrence of any of the following:

- (1) Iran does not appear on the List of State Sponsors of Terrorism;
- (2) The President or Congress of the United States, through legislation or executive order, declares that mandatory divestment of the type provided for in this act interferes with the conduct of United States foreign policy.

The United States designated Iran a state sponsor of terrorism in 1984, and has not removed Iran from the list at this time.

The other precondition for the sunset clause, a declaration by the President or Congress of the United States that mandatory divestment of the type provided for in Act 44 interferes with U.S. foreign policy, has also not been met at this time.

## Activities Timeline

Act 44 stipulates a set of activities to be conducted by the Four Funds as well as time frames for the execution of the activities. Timeline A provides deadlines for past activities and the dates on which they were completed by the Four Funds. Timeline B provides deadlines for ongoing activities and the dates on which they were completed by the Four Funds.

### Timeline A: Fund Activities Timeline – Initial Required Activities

REQUIRED ACTIONS	DUE DATE	ACTION TAKEN
Within 30 days of the passage of the Act, administrators of the public fund shall file a written report to the United States Attorney General detailing the requirements contained in the Act.	08/01/2010	07/28/2010
Within 90 days after the effective date of the Act, a public fund shall make its best effort to identify all scrutinized companies in which the public fund has direct holdings	09/30/2010	07/07/2010
By the first meeting of a public fund following the 09/30/2010 imposed deadline, the public fund shall assemble all scrutinized companies that fit the criteria of the definition of "scrutinized company" into a Scrutinized Companies with Activities in Iran and/or Sudan List(s).	Various dates depending upon fund	10/27/2010
Within 120 days after the effective date of the Act, a public fund will send a written notice to identified companies. This notification will contain an explanation as to the reason of the company's inclusion on the scrutinized companies list as well as the potential for any related securities held by the public fund to be divested. It will also include a notice informing the company of the opportunity to clarify its scrutinized business activities and encouraging the company to cease its scrutinized activities.	10/30/2010	10/29/2010
Within one year of the creation of its scrutinized lists, a public fund will provide a report to the Governor; the President Pro Tempore of the Pennsylvania Senate; the Speaker of the Pennsylvania House of Representatives; and each member of the boards of the Pennsylvania Municipal Retirement System, the State Employees' Retirement System and the Public School Employees' Retirement System.	10/27/2011	09/30/2011

**Timeline B: Fund Activities Timeline – Ongoing Required Activities**

<b>REQUIRED ACTIONS</b>	<b>DUE DATE</b>	<b>ACTION TAKEN</b>
A public fund shall annually update, based on evolving information under reporting requirements, and make publically available its Scrutinized Companies with Activities in Iran List and Scrutinized Companies with Activities in Sudan List	10/27/2014	09/30/2014
A public fund shall provide a copy of the lists of scrutinized companies, including updates, to all other public funds	10/27/2014	09/30/2014

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## Response of Certain Public Funds

In response to the Act, the Four Funds agreed to coordinate their activities through the Pennsylvania Treasury Department. IW Financial, an independent third party research firm, was selected through a competitive bidding process as the initial consultant to provide assistance with various activities required by the Act.

### Methodology Used to Determine Scrutinized Companies

IW Financial, in consultation with the Four Funds, developed a methodology for creating two lists of scrutinized companies (Iran and Sudan lists).

In order to determine whether a company meets the criteria for inclusion on one or both of the scrutinized company lists, IW Financial applies the criteria from Act 44 to perform a review of companies with potential ties to Sudan and/or Iran. In the review process, IW Financial utilizes a variety of public sources, including:

- SEC Filings
- U.S. Government Agency Information (OFAC, EDGAR, EIA, etc.)
- News Wires and Trade Publications
- Industry Analysis
- Company Disclosures
- Non-Governmental Organization Reports
- Any Other Publicly Available Information

IW Financial produced the first scrutinized companies lists derived from this methodology in October 2010, and has updated them quarterly since that initial list until April 2014. The lists serve as the basis for screening the direct holdings of the Four Funds, the corporate engagement process, and divestment should that ultimately prove to be required, as specified by the Act.

In April 2013, the Four Funds refined the criteria, originally developed jointly and with consultation from IW Financial, that is used to determine scrutinized companies having activities in Iran. Specifically, the Four Funds reconsidered situations in which companies enter into purchasing agreements for oil from the government of Iran. Purchasing agreements were not included in the criteria originally used by IW Financial to determine scrutinized companies. The Four Funds concluded that purchasing agreements should be considered the "selling or trading oil or natural gas" as described in paragraph (3) under the definition of "Oil-related activities" provided in Act 44. Beginning with the April 2013 lists of scrutinized companies, the Four Funds directed IW Financial to consider as scrutinized companies that have entered into purchasing agreements in excess of \$20 million for the purchase of oil from the government of Iran in any 12-month period since August 5, 1996.

In March 2014, Treasury issued an Invitation for Bid (IFB) to identify a qualified vendor to provide lists of scrutinized companies and associated reporting services to the Four Funds

after expiration on June 30, 2014 of Treasury's contract with IW Financial. Sustainalytics submitted the lowest acceptable bid and entered into a contract with Treasury to provide the requested services to the Four Funds upon the expiration of the IW Financial contract. Sustainalytics transmitted the first lists of scrutinized companies to Treasury on July 15, 2014. At Treasury's request, Sustainalytics revised the lists to exclude seven companies without a clear indication of recent involvement in Iran and/or Sudan in order to allow Treasury an opportunity to confirm the status of each company's involvement. The revised lists were used as the basis to determine holdings in scrutinized companies as of June 30, 2014.

**Table 1a: Most Recent List of Scrutinized Companies Determined as Having Involvement in Sudan**

The table below shows the list of scrutinized companies as of July 2014 and the reason for their inclusion on the list, regardless of when they were added.

COMPANY NAME	REASON FOR INCLUSION ON SUDAN SCRUTINIZED LIST
Arabian Pipes Company	Government; Oil/Mineral Extraction Activities;
ASEC Company for Mining ASCOM, S.A.E	Government; Oil/Mineral Extraction Activities;
Bharat Heavy Electricals Ltd.	Government; Power Production;
China Gezhouba Group Company Limited	Government; Power Production;
China Petroleum & Chemical Corp.	Government; Oil/Mineral Extraction Activities;
Citadel Capital	Government; Oil/Mineral Extraction Activities;
Dongfeng Motor Group Co. Ltd.	Government; Sale of Military Equipment
Egypt Kuwait Holding Company	Government; Oil/Mineral Extraction Activities;
Elsowedy Electric Co.	Government; Power Production;
Engineers India Limited	Government; Oil/Mineral Extraction Activities;
Harbin Electric Company Ltd.	Government; Power Production;
Hifab Group AB	Government; Power Production;
Independent Petroleum Group (S.A.K.Closed)	Government; Oil/Mineral Extraction Activities;
Indian Oil Corp. Ltd.	Government; Oil/Mineral Extraction Activities;
Managem, Société Anonyme	Government; Oil/Mineral Extraction Activities;
Mangalore Refinery & Petrochemicals Ltd.	Government; Oil/Mineral Extraction Activities;
Oil and Natural Gas Corp. Ltd.	Government; Oil/Mineral Extraction Activities;
Oil India Ltd.	Government; Oil/Mineral Extraction Activities;

COMPANY NAME	REASON FOR INCLUSION ON SUDAN SCRUTINIZED LIST
Orca Gold Inc.	Government; Oil/Mineral Extraction Activities;
PetroChina Co. Ltd.	Government; Oil/Mineral Extraction Activities;
Power Construction Corporation of China (formerly Sinohydro group)	Government; Power Production;
Reliance Industries Limited	Government; Oil/Mineral Extraction Activities;
Schneider Electric S.A.	Government; Power Production;
Shanghai Electric Group Co.	Government; Oil/Mineral Extraction Activities;
The Energy House Holding Co. Ltd. (closed)	Government; Oil/Mineral Extraction Activities;

**Table 1b: Most Recent List of Scrutinized Companies Determined as Having Involvement in Iran**

The table below shows the list of scrutinized companies as of July 2014 and the reason for their inclusion on the list, regardless of when they were added.

COMPANY NAME	REASON FOR INCLUSION ON IRAN SCRUTINIZED LIST
Bharat Petroleum Corporation Ltd.	Oil-related investment of at least US \$20 million since 1996
China CSSC Holdings Limited	Oil-related investment of at least US \$20 million since 1996
China Oilfield Services Ltd. (SEHK:2883)	Oil-related investment of at least US \$20 million since 1996
China Petroleum & Chemical Corp.	Oil-related investment of at least US \$20 million since 1996
China Shipbuilding Industry Co., Ltd.	Oil-related investment of at least US \$20 million since 1996
CNOOC Ltd.	Oil-related investment of at least US \$20 million since 1996
Cosmo Oil Company, Ltd	Oil-related investment of at least US \$20 million since 1996
Costain Group plc	Oil-related investment of at least US \$20 million since 1996
Daelim Industrial Co. Ltd.	Oil-related investment of at least US \$20 million since 1996
Essar Oil Ltd.	Oil-related investment of at least US \$20 million since 1996
JNK Heaters Co. Ltd.	Oil-related investment of at least US \$20 million since 1996
Gail (India) Ltd.	Oil-related investment of at least US \$20 million since 1996
GS Engineering & Construction Corp	Oil-related investment of at least US \$20 million since 1996

COMPANY NAME	REASON FOR INCLUSION ON IRAN SCRUTINIZED LIST
Gubre Fabrikalari T.A.S.	Oil-related investment of at least US \$20 million since 1996
Hindustan Petroleum Corporation Ltd.	Oil-related investment of at least US \$20 million since 1996
Idemitsu Kosan Co. Ltd	Oil-related investment of at least US \$20 million since 1996
Indian Oil Corp. Ltd.	Oil-related investment of at least US \$20 million since 1996
JX Holdings Inc.	Oil-related investment of at least US \$20 million since 1996
KOC Holding AS	Oil-related investment of at least US \$20 million since 1996
Liquefied Natural Gas Limited	Oil-related investment of at least US \$20 million since 1996
Maire Tecnimont S.p.A.	Oil-related investment of at least US \$20 million since 1996
Mangalore Refinery & Petrochemicals Ltd.	Oil-related investment of at least US \$20 million since 1996
Mitsui & Co. Ltd.	Oil-related investment of at least US \$20 million since 1996
Mitsubishi Corporation	Oil-related investment of at least US \$20 million since 1996
OAD Gazprom	Oil-related investment of at least US \$20 million since 1996
Oil and Natural Gas Corp. Ltd.	Oil-related investment of at least US \$20 million since 1996
Oil India Limited	Oil-related investment of at least US \$20 million since 1996
PetroChina Co. Ltd.	Oil-related investment of at least US \$20 million since 1996
Royal Dutch Shell Plc.	Oil-related investment of at least US \$20 million since 1996
Sinopec Shanghai Petrochemical Co. Ltd.	Oil-related investment of at least US \$20 million since 1996
Showa Shell Sekiyu K.K.	Oil-related investment of at least US \$20 million since 1996
SK Innovation Co. Ltd.	Oil-related investment of at least US \$20 million since 1996
Toyota Tsusho Corporation	Oil-related investment of at least US \$20 million since 1996
Tupras Turkiye Petrol Rafinerileri AS	Oil-related investment of at least US \$20 million since 1996

## Table 2: List of Prohibited Investments

Act 44 prohibits the Four Funds from acquiring the securities of companies identified on the lists of scrutinized companies. The Act also requires a list of prohibited investments to be

included in this report, separate from the most recent lists of scrutinized companies found in Tables 1a and 1b.

Either IW Financial or Sustainalytics provided the lists of scrutinized companies to the Four Funds on a quarterly basis during the reporting period. The Four Funds disclose the lists as requested and annually in this report. The lists of scrutinized companies are likely to change from quarter to quarter. A company may appear on a list of scrutinized companies in a given quarter, indicating that any security of that company is a prohibited investment. That same company may then not appear on a list of scrutinized companies in subsequent quarters, indicating that any security of that company is no longer a prohibited investment. A company may also depart the list for a period of time and then be added back to it.

On a quarterly basis, the Four Funds provide a list of prohibited investments to their investment managers with instructions prohibiting the managers from purchasing securities of companies on the prohibited investments list. The instructions also direct attention to the companies that were added to or removed from the list since the preceding quarter. The following table presents all companies that have been on a quarterly scrutinized list during the year and the quarter(s) in which they appeared.

COMPANY	IRAN	SUDAN	OCT 2013 LIST	JAN 2014 LIST	APRIL 2014 LIST	JULY 2014 LIST
Arabian Pipes Co		x	x	x	x	x
Asec Company for Mining		x	x	x	x	x
Bharat Heavy Electricals Ltd.		x	x	x	x	x
Bharat Petroleum Corporation Ltd.	x		x	x	x	x
China CSSC Holdings Limited	x					x
China Gezhouba Group Company Limited		x	x	x	x	x
China Oilfield Services Ltd.	x					x
China Petroleum & Chemical Corp	x	x	x	x	x	x
China Shipbuilding Industry Co., Ltd.	x					x
Citadel Capital Co SAE		x	x	x	x	x
CNOOC Ltd.	x					x
Cosmo Oil Company Ltd	x		x	x	x	x
Costain Group plc	x					x
Daelim Industrial	x		x	x	x	x
Dongfeng Motor Group Co		x	x	x	x	x
Drake & Skull International Pjsc		x	x	x	x	

COMPANY	IRAN	SUDAN	OCT 2013 LIST	JAN 2014 LIST	APRIL 2014 LIST	JULY 2014 LIST
Dubai Investments		X	X	X	X	
Egypt Kuwait Holding Co		X	X	X	X	X
Elsewedy Electric Company		X	X	X	X	X
Emperor Oil Ltd.		X	X	X	X	
Energy House Holding Company K.S.C.C. (formerly Aref Energy Holding Co.(K.S.C.C.))		X	X	X	X	X
Engineers India Ltd.		X	X	X	X	X
Essar Energy Plc	X		X	X	X	
Essar Oil Ltd.	X		X	X	X	X
Gail (India) Ltd.	X		X	X	X	X
Gazprom	X		X	X	X	X
GS Engineering & Construction Corp	X		X	X	X	X
GS Holdings	X		X	X		
Gubre Fabrikalari T.A.S.	X		X	X	X	X
Harbin Electric Corporation/Harbin Electric Company Ltd.		X	X	X	X	X
Hifab Group AB		X				X
Hindustan Petroleum Corporation Ltd.	X		X	X	X	X
Idemitsu Kosan Co.Ltd	X		X	X	X	X
Independent Petroleum Group Co.		X	X	X	X	X
Indian Oil Corporation Ltd.	X	X	X	X	X	X
Japan Petroleum Exploration Co., Ltd.	X		X	X	X	
JNK Heaters Co. Ltd.	X					X
JX Holdings Inc	X		X	X	X	X
KOC Holding AS	X					X
Kuwait Finance House		X	X	X	X	
L G International	X		X	X	X	
Liquefied Natural Gas Ltd	X		X	X	X	X

COMPANY	IRAN	SUDAN	OCT 2013 LIST	JAN 2014 LIST	APRIL 2014 LIST	JULY 2014 LIST
Maire Tecnimont S.p.A.	x		x	x	x	x
Managem, Société Anonyme		x	x	x	x	x
Mangalore Refinery & Petrochemicals Ltd.	x		x	x	x	x
Mangalore Refinery & Petrochemicals Ltd.		x				x
Mitsubishi Corp.	x		x	x	x	x
Mitsui & Co. Ltd	x		x	x	x	x
Motor Sich	x		x	x	x	
Nagarjuna Fertilizers & Chemicals Ltd.	x		x	x	x	
Oil & Natural Gas Corporation Ltd.	x	x	x	x	x	x
Oil India Ltd		x	x	x	x	x
Oil India Ltd	x					x
Orca Gold Inc.		x				x
PetroChina Co. Ltd.	x	x	x	x	x	x
Petrofac	x		x			
Pjbumi Bhd		x	x	x		
Power Construction Corporation of China, Ltd. (formerly Sinohydro. Group, Ltd.)		x			x	x
Punj Lloyd Ltd.	x		x	x		
Reliance Industries Ltd.		x				x
Royal Dutch Shell Plc	x		x	x	x	x
SapuraKencana Petroleum Bhd		x	x	x	x	
Schneider Electric		x	x	x	x	x
Shanghai Electric Group Co		x	x	x	x	x
Showa Shell Sekiyu K K	x		x	x	x	x
Shanghai Electric Group Co		x	x	x	x	x
Sinohydro. Group, Ltd. (changed to Power Construction Corporation of China, Ltd.)		x	x	x		
Sinopec Shanghai Petrochemical Co. Ltd.	x		x	x	x	x

COMPANY	IRAN	SUDAN	OCT 2013 LIST	JAN 2014 LIST	APRIL 2014 LIST	JULY 2014 LIST
SK Innovation Co. Ltd.	x		x	x	x	x
Total S.A.	x		x	x	x	
Toyota Tsusho Corporation	x		x	x	x	x
Tupras Turkiye Petrol Rafinerileri AS	x		x	x	x	x

### Table 3: Change Log for Scrutinized Lists

As explained in the previous table, the lists of scrutinized companies are updated on a quarterly basis. Table 3 explains changes to the lists of scrutinized companies since July 2013.

COMPANY NAME	IRAN	SUDAN	CHANGE: REASON FOR CHANGE*	DATE OF CHANGE
Maire Tecnimont S.p.A.	x		Added: New involvement identified	10/15/2013
Sinopec Shanghai Petrochemical Co. Ltd.	x		Added: New involvement identified	10/15/2013
Tupras Turkiye Petrol Rafinerileri AS	x		Added: New involvement identified	10/15/2013
Marubeni Corporation	x		Deleted: Involvement clarified; no longer meets \$20 million purchasing threshold	10/15/2013
Sasol Ltd	x		Deleted: Now past involvement	10/15/2013
Technip	x		Deleted: Now past involvement	10/15/2013
Dongfeng Motor Group Co		x	Added: New involvement identified	10/15/2013
Emperor Oil Ltd.		x	Added: New involvement identified	10/15/2013
Energy House Holding Company K.S.C.C.		x	Added: Name and ticker changed from Aref Energy Holding Co. (K.S.C.C.) (AREFENRGY)	10/15/2013
Aref Energy Holding Co. (K.S.C.C.)		x	Deleted: Name and ticker changed to Energy House Holding Company K.S.C.C. (ENERGYH)	10/15/2013
Petrofac Ltd.	x		Deleted: Now past involvement	01/15/2014
GS Holdings	x		Deleted: Now past involvement	04/15/2014
Punj Lloyd Ltd.	x		Deleted: Now past involvement	04/15/2014
Power Construction Corporation of China, Ltd.		x	Added: Name changed from Sinohydro. Group, Ltd.	04/15/2014
Pjbumi Bhd		x	Deleted: Now past involvement	04/15/2014

COMPANY NAME	IRAN	SUDAN	CHANGE: REASON FOR CHANGE*	DATE OF CHANGE
Sinohydro. Group, Ltd.		x	Deleted: Name changed to Power Construction Corporation of China, Ltd.	04/15/2014
China CSSC Holdings Limited	x		Added: New involvement identified	07/15/2014
China Oilfield Services Ltd.	x		Added: New involvement identified	07/15/2014
China Shipbuilding Industry Co., Ltd.	x		Added: New involvement identified	07/15/2014
CNOOC Ltd.	x		Added: Scrutinized involvement by parent company with substantial overlap between management and/or directors	07/15/2014
Costain Group plc	x		Added: New involvement identified	07/15/2014
JNK Heaters Co. Ltd.	x		Added: New involvement identified	07/15/2014
KOC Holding AS	x		Added: Parent company of scrutinized company	07/15/2014
Essar Energy Plc	x		Deleted: Now privately held	07/15/2014
Japan Petroleum Exploration Co., Ltd.	x		Deleted: Now past involvement	07/15/2014
LG International	x		Deleted: change in ownership	07/15/2014
Motor Sich Joint Stock Company	x		Deleted: Does not meet Act 44 criteria	07/15/2014
Nagarjuna Fertilizers & Chemicals Ltd.	x		Deleted: Now privately held	07/15/2014
Total SA	x		Deleted: Now past involvement	07/15/2014
Hifab Group AB		x	Added: New involvement identified	07/15/2014
Orca Gold Inc.		x	Added: New involvement identified	07/15/2014
Reliance Industries Limited		x	Added: New involvement identified	07/15/2014
Drake & Scull International PJSC		x	Deleted: Now past involvement	07/15/2014
Dubai Investments		x	Deleted: Does not meet Act 44 criteria	07/15/2014
Emperor Oil		x	Deleted: Now past involvement	07/15/2014
Kuwait Finance House		x	Deleted: Now past involvement	07/15/2014
SapuraKencana Petroleum Bhd.		x	Deleted: Does not meet Act 44 criteria	07/15/2014

\*This column reports the nature of any change in the status of a company (*i.e.*, that it was either added to or removed from the list of scrutinized companies) and briefly describes the reason for the change (*e.g.*, the activity or involvement with the terror-sponsoring state's government initially supporting inclusion on the list was no longer occurring; additional information corrected the initial impression on which inclusion was based; *etc.*).

---

## Engagement and Company Correspondence

Each company on the scrutinized lists was sent a written notice informing the company of its scrutinized company status, specifying the business activities responsible for that status, and explaining the implications of that status per the Act. Each company was invited to respond to this notification, either to clarify its activities or to inform the Four Funds of plans to cease its scrutinized involvement.

For the purposes of the correspondence there were two distinct categories of scrutinized companies: companies in which one or more of the funds have direct holdings and companies that are not held in any fund's portfolio. The differences between these two groups of companies are the consequences for their inclusion on a scrutinized list and the level of engagement by the Four Funds.

- The Four Funds are prohibited from any additional investment in companies that are directly held. In addition, these companies have 180 days following notification to announce significant action toward ceasing scrutinized activities or suffer divestment within 26 months after the 180-day period.
- The Four Funds are prohibited from initiating investment in companies that are not directly held.

IW Financial sent the written notices to companies not directly held by the Four Funds. Company responses are directed to IW Financial, which determines whether the responses are sufficient to warrant a change in scrutinized status. IW Financial prepared the written notices to companies directly held by the Four Funds, but the notices were sent by Treasury. Company responses are directed to the Four Funds through Treasury. The Four Funds then consulted with IW Financial to determine whether the responses are sufficient to warrant a change in scrutinized status. Templates of the notice sent to the scrutinized companies in each of the above categories can be found in Appendix B.

Beginning with the July 15, 2014 lists of scrutinized companies -- provided by Sustainalytics to the Four Funds, included in this report, and used to determine scrutinized holdings as of June 30, 2014 -- the Four Funds began sending written notification to companies identified as scrutinized by Sustainalytics that were not on the previous lists of scrutinized companies, regardless of their status as held by the Four Funds. Treasury also revised the letter template to include a summary of the specific involvement identified by Sustainalytics, in addition to the Act 44 determination criteria met by the involvement. These revisions were made by Treasury based on the observation that scrutinized companies were more likely to respond to an inquiry from an investor (or potential investor) than a research provider, especially if the inquiry included a description of the qualifying involvement. The revised letter directs scrutinized companies to provide a response to the Four Funds through Treasury. Treasury will then forward any responses to Sustainalytics, which will provide Treasury a recommendation on whether the response is sufficient to warrant a change in scrutinized status. A copy of the revised letter is also included in Appendix B.

**Table 4: Date of Written Notice Informing the Scrutinized Companies as to Their Status**

Companies identified during the reporting period as having scrutinized activities in countries of concern were notified of their inclusion on a scrutinized list through a correspondence process. The following table lists the companies sent written notice during the period of this report, describes whether or not related securities were initially determined to be held by one or more of the Four Funds, and provides the date the notification was sent.

COMPANY NAME	IN HOLDINGS	NOT IN HOLDINGS	DATE OF NOTIFICATION
China CSSC Holdings Limited		x	08/28/2014
China Oilfield Services Ltd.		x	08/28/2014
China Shipbuilding Industry Co., Ltd.		x	08/28/2014
CNOOC Ltd.	x		08/28/2014
Costain Group plc		x	08/28/2014
JNK Heaters Co. Ltd.		x	08/28/2014
KOC Holding AS	x		08/28/2014
Hifab Group AB		x	08/28/2014
Orca Gold Inc.		x	08/28/2014
Reliance Industries Limited	x		08/28/2014
Dongfeng Motor Group Co	x		09/29/2014
Maire Tecnimont S.p.A.		x	09/29/2014
Sinopec Shanghai Petrochemical Co. Ltd.	x		09/29/2014
Tupras Turkiye Petrol Rafinerileri AS	x		09/25/2014

**Table 5: Correspondence from Companies Determined as Directly Held by One or More of the Four Funds**

Companies notified of their inclusion on the lists of scrutinized companies have 180 days to respond and either clarify their involvement or submit a plan of substantial action for the cessation of scrutinized activities. Table 5 describes companies determined to be directly held by one or more of the Four Funds during the reporting period. It also shows when the companies responded to notification of their scrutinized status, whether the correspondence identified plans or actions to change their active involvement status, and what actions the Four Funds took (if any) due to the correspondence.

COMPANY NAME	IRAN	SUDAN	DATE RESPONDED	STATUS CHANGE	ACTIONS TAKEN
We received no responses from companies determined as directly held by one or more of the Four Funds during the period of this report.					

**Table 6: Correspondence from Companies Determined as Not Directly Held by One or More of the Four Funds**

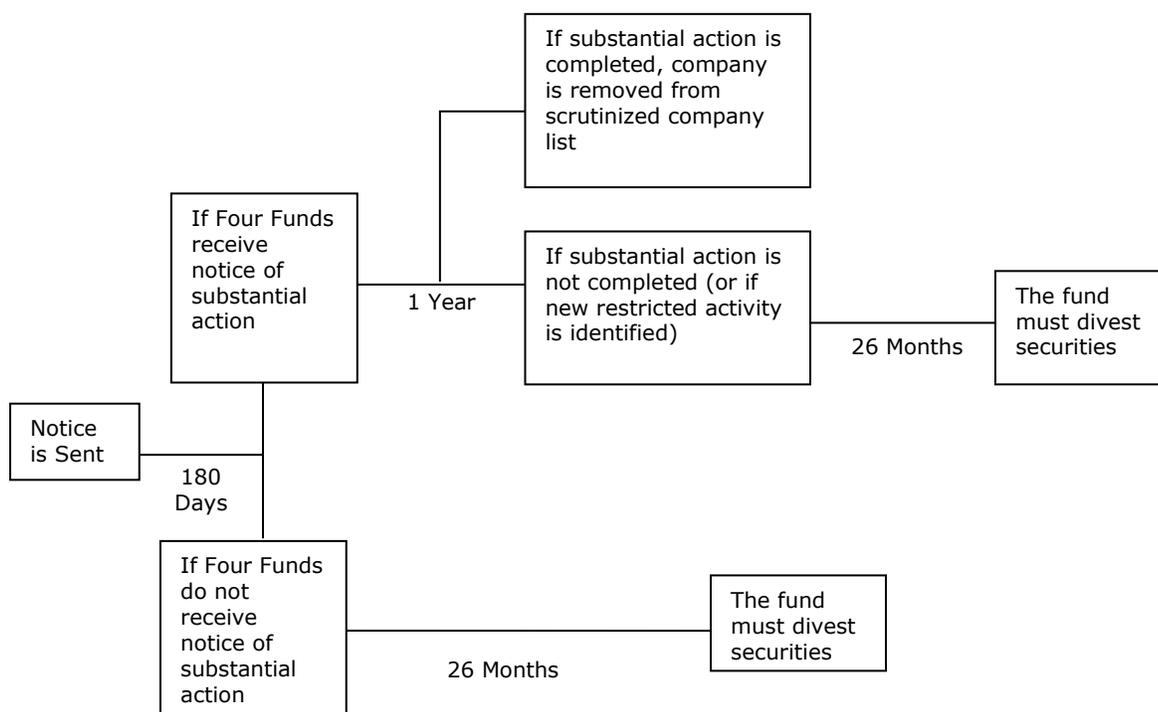
Table 6 lists companies that were determined to not be directly held by one of the Four Funds during the reporting period that have responded to the notification of scrutinized status, and what actions were taken (if any) due to their correspondence.

COMPANY NAME	IRAN	SUDAN	DATE RESPONDED	STATUS CHANGE	ACTIONS TAKEN
We received no responses from companies determined as not directly held by one or more of the Four Funds during the period of this report.					

## Divestment Process and Activities

The Act lays out a process and timeline for divestment from any directly-held scrutinized company that fails to take significant action with regard to its involvement.

### Timeline C: Scrutinized Company Divestment Timeline



- When a scrutinized company is identified, a notice is sent advising the company as to its status. The notification provides an explanation of the reason for the company's inclusion on a list of scrutinized companies and of the potential for any related securities held by the public fund to be divested. The notice also informs the company of the opportunity to clarify its scrutinized business activities and encourages the company to cease its scrutinized activities.
- If within 180 days of the date of receipt of this notice the company announces by public disclosure that the company will take substantial action (*i.e.*, publicizing and implementing a formal plan to cease scrutinized business activities within one year and refrain from any such new business activities), the public fund may maintain its holdings in securities relating to the scrutinized company. The company, however, will remain on the scrutinized company list(s) until the actual cessation of scrutinized business activities.
  - If the company fails to follow through with disclosed substantial action within one year, or if the company engages in new scrutinized business activities within a country of concern, then the fund must divest securities related to

the scrutinized company within 26 months after expiration of the one-year period.

- If, however, the company does not announce by public disclosure within 180 days of the date of receipt of this notice that the company will take substantial action (*i.e.*, publicizing and implementing a formal plan to cease scrutinized business activities within one year and refrain from any such new business activities), then the fund must divest securities related to the scrutinized company within 26 months.

### Table 7: Current Divestment Schedule of Scrutinized Companies

Certain companies have either not responded to the notices sent on behalf of the Four Funds by the Treasury Department or their responses have not yet met the requirements for removal from the Scrutinized Lists. The following table lists companies directly held by one or more of the Four Funds that are subject to being divested based upon this failure to respond or to provide an adequate response. The table also shows the date of the original notice, the date that an adequate response to the notice needed to be received, and the date by which all related securities held by one or all of the Four Funds must be divested.

This list also includes companies that have submitted a plan of substantial action to cease scrutinized activities in the country of concern. The Four Funds will monitor the companies' progress over the course of a year. If a company ceases all scrutinized activities within one year after receipt of a plan of substantial action, it will be removed from the scrutinized lists. If a company fails to follow through with disclosed substantial action within one year, or if a company engages in new scrutinized business activities within a country of concern, then the fund will divest securities related to that scrutinized company by the date indicated.

COMPANY NAME	IRAN	SUDAN	NOTICE SENT	180 DAY DEADLINE	DATE OF RESPONSE REGARDING SUBSTANTIAL ACTION	DIVESTMENT DEADLINE
CNOOC Ltd.	x		08/28/2014	02/24/2015		04/24/2017
Idemitsu Kosan Co.Ltd	x		05/09/2013	11/05/2013		01/05/2016
JX Holdings Inc	x		05/09/2013	11/05/2013		01/05/2016
KOC Holding AS	x		08/28/2014	02/24/2015		04/24/2017
Mitsubishi Corp.	x		05/09/2013	11/05/2013		01/05/2016
Reliance Industries Ltd.		x	08/28/2014	02/24/2015		04/24/2017
Royal Dutch Shell Plc	x		05/09/2013	11/05/2013		01/05/2016
Showa Shell Sekiyu K K	x		05/09/2013	11/05/2013		01/05/2016
Tupras Turkiye Petrol Rafinerileri AS	x		09/25/2014	03/24/2015		05/24/2017

## Investment Transactions Related to Scrutinized Companies

Since October 2010, the Four Funds have advised their investment managers to make no new investments in the securities of any scrutinized company in order to comply with the Act's restrictions on new investments. The Act also requires the Four Funds to divest within 26 months their direct holdings in securities of companies that have not announced, by public disclosure, substantial action regarding cessation of their scrutinized activities within 180 days of notification. Act 44 directs the Four Funds to report all investments sold, redeemed, divested, or withdrawn in compliance with the Act.

The table below shows the name of each scrutinized company sold that failed to announce substantial action, and the net proceeds realized from those transactions, for the period between July 1, 2013 and June 30, 2014. It is important to note that the appearance of a scrutinized company on this table may signify only that one (or more) managers for one public fund chose to sell such securities. It does not mean that such public fund and/or another public fund does not continue to hold a position in any of the listed companies, for some of which the applicable divestment deadlines have yet to occur.

**Table 8: Investment Sales of Scrutinized Companies for the Period Ending June 30, 2014**

SCRUTINIZED COMPANY	AMOUNT
Cosmo Oil Company Ltd	\$389,408.69
Dongfeng Motor Group Co	\$267,324.06
Idemitsu Kosan Co.Ltd	\$177,404.38
JX Holdings Inc	\$2,039,137.70
Mitsubishi Corp.	\$1,026,969.77
Royal Dutch Shell Plc	\$44,038,044.28
Showa Shell Sekiyu K K	\$95,067.39
Sinopec Shanghai Petrochemical Co. Ltd.	\$62,132.29
SK Innovation Co. Ltd.	\$481,025.20
<b>Total</b>	<b>\$48,576,513.76</b>

## Cost of Investments

In addition to the investments sold, redeemed, divested or withdrawn in compliance with its Section 4(c) (concerning divestment requirements), Act 44 also requires this report to disclose the "costs and expenses of such transfers and a determination of net gain or loss on account of such transactions incurred in compliance with the provisions of this act." The prior section of this report and Table 8 describe certain transactions the Four Funds conducted that involved companies with scrutinized activities.

The Four Funds are provided the opportunity to make a claim for reimbursement for net losses, costs, and expenses incurred as a result of compliance with the Act. The Act directs the Secretary of Budget, in consultation with public funds, to establish annually a uniform method to be used to calculate gains and losses incurred as a result of compliance with the Act. The Four Funds then have until November 1<sup>st</sup> each year to submit a claim for reimbursement to the Secretary of the Budget.

The Secretary of the Budget has instructed the Four Funds to continue utilizing the methodology he issued for the period ending June 30, 2011 in order to calculate gains and losses incurred as a result of compliance with the Act for the period ending June 30, 2014. Table 9 presents investment costs for the most recent fiscal year by category of expense. Table 10 presents investment costs from the most recent fiscal year by each fund, for which each will seek reimbursement from the general fund according to the methodology issued by the Secretary of the Budget.

A copy of the methodology issued by the Secretary of the Budget for the calculation of gains and losses as a result of compliance with Act 44 is presented in Appendix C of this report.

**Table 9: Costs and Losses (Gains) of Investments for the Period Ending June 30, 2014, by Category of Expense**

EXPENSE	AMOUNT
Consulting Services	\$39,375.00
Investment Losses (Gains)	(\$1,405,233.58)
Postage	\$92.34
Salaries of Staff	\$53,486.03
Supplies	\$41.66
Technology	\$588.00

**Table 10: Cost and Losses (Gains) of Investments for the Period Ending June 30, 2014, By Fund**

EXPENSE	AMOUNT
<b>PMRS</b>	
Consulting Services	\$9,843.75
Investment Losses (Gains)	\$0.00
Salaries of Staff	\$957.81
<b><i>PMRS Total Expenses Reimbursed by the General Fund</i></b>	<b><i>\$10,801.56</i></b>
<b>PSERS</b>	
Consulting Services	\$9,843.75
Investment Losses (Gains)	(\$1,053,265.17)
Salaries of Staff	\$4,008.03
<b><i>PSERS Total Expenses Reimbursed by the General Fund*</i></b>	<b><i>\$0.00</i></b>
<b>SERS</b>	
Consulting Services	\$9,843.75
Investment Losses (Gains)	(\$351,968.41)
Salaries of Staff	\$2,700.97
<b><i>SERS Total Expenses Reimbursed by the General Fund*</i></b>	<b><i>\$0.00</i></b>
<b>Treasury</b>	
Consulting Services	\$9,843.75
Investment Losses (Gains)	\$0.00
Postage	\$92.34
Salaries of Staff	\$45,819.21
Supplies	\$41.66
Technology	\$588.00
<b><i>Treasury Total Expenses Reimbursed by the General Fund</i></b>	<b><i>\$56,384.96</i></b>
<b><i>Four Funds' Total Expenses Reimbursed by the General Fund</i></b>	<b><i>\$67,186.52</i></b>

\* Since investment gains from transactions exceeded the administrative costs of compliance, Act 44 does not authorize reimbursement.

## **Conclusion**

This report has been prepared in accordance with the requirements contained in Act 44 of 2010. The information found in this report is derived from a variety of data sources. The Four Funds believe this information to be accurate at the time of publication. Any discrepancies discovered after the publication of this report will be addressed in subsequent reports.

Any questions about this report should be directed to:

Pennsylvania Treasury Department  
101 Finance Building  
Harrisburg, PA 17120  
717.772.1830

## Appendix A: Letter Sent to U.S. Attorney General Eric Holder and Acknowledgement



TREASURY DEPARTMENT  
COMMONWEALTH OF PENNSYLVANIA  
HARRISBURG, PA 17120

THE STATE TREASURER

July 28, 2010

Attorney General Eric H. Holder, Jr.  
U.S. Department of Justice  
950 Pennsylvania Avenue, NW  
Washington, DC 20530-0001

Dear Attorney General Holder:

I write to you pursuant to the Protecting Pennsylvania's Investments Act (Act 44 of 2010, hereinafter cited as "Act 44"), a state divestment law that controls direct holdings by public funds in companies that have a prohibited association with the nations of Sudan or Iran. I am providing this report in accordance with Act 44 and with the Comprehensive Iran Sanctions Accountability and Divestment Act of 2010 (H.R. 2194, 111th Cong. Title II) § 202(e) and the Sudan Accountability and Divestment Act of 2007 (P.L. 110-174) §3.

Please accept this report from Pennsylvania Treasury, which is also acting on behalf of the other affected public funds that are required to provide you with a written report, namely the Pennsylvania State Employees' Retirement System, the Pennsylvania Public School Employees' Retirement System, and the Pennsylvania Municipal Retirement System. Each of these public funds has authorized me to act on its behalf in this regard.

The Pennsylvania Treasurer is statutorily designated as custodian of various funds deposited with the Commonwealth and is also authorized to invest on behalf of certain funds. Among the larger funds under the custody of the Treasurer is the Public School Employees' Retirement Fund, with assets currently of about \$46 billion, the State Employees' Retirement Fund, with assets currently of about \$25 billion, and the Pennsylvania Municipal Retirement Fund, with assets currently of about \$1.4 billion. The investments of each of these funds are managed and controlled by separate retirement boards that stand in a fiduciary relationship to their beneficiaries and are subject to a prudent investor standard of care.

Attorney General Eric H. Holder, Jr.  
Page Two  
July 28, 2010

Act 44 regulates and limits the Treasurer's and the pension boards' investment authority pertaining to investments in certain companies defined by the statute as "scrutinized companies" based upon their involvement or association with Sudan and Iran. In particular, Act 44 directs the Treasurer, the pension boards, and other public funds, as follows:

- Within 90 days, identify all scrutinized companies having business activities with either Sudan or Iran in which public funds are invested;
- Following the initial 90 day period, develop lists of all such scrutinized companies in each country;
- Provide written notice to each company on the scrutinized company lists advising the business that its business activities have resulted in a determination that it may become subject to divestment;
- Within 180 days of receipt of such written notice, if the notified company makes a public announcement indicating the intention of the company to cease activities with either Sudan or Iran, determine whether to remove the company from the scrutinized company list and maintain its investment; however,
- Within 180 days of receipt of such written notice, if the company has not made any public announcement concerning its intention to cease activities with either Sudan or Iran, the public fund shall completely divest its investment in the company within 26 months following the 180 day period.

Act 44 mandates additional monitoring and reporting requirements applicable to each Commonwealth public fund custodian. In addition, Act 44 permits scrutinized investments to continue or be reinstated under specific circumstances related to each nation's status as a state sponsor of terrorism pursuant to the federal Foreign Relations Authorization Act of 1988 and 1989.

A complete copy of Act 44 is attached for your consideration. Please do not hesitate to get in touch with me if you have questions or if we can be of assistance.

Sincerely,



Robert M. McCord  
State Treasurer



U.S. Department of Justice

Office of Intergovernmental and Public Liaison

950 Pennsylvania Avenue, NW, Room 1629  
Washington, DC 20530

2010 AUG 11 AM 10:24  
ROOM 129

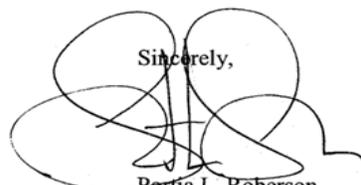
August 9, 2010

Mr. Robert M. McCord  
State Treasurer  
Treasury Department  
Commonwealth of Pennsylvania  
129 Finance Building  
Harrisburg, PA 17120

Dear Mr. McCord:

This is to acknowledge receipt of your letter to the Attorney General dated July 28, 2010 and the attached report on behalf of the Pennsylvania State Employees' Retirement System, the Pennsylvania Public School Employees Retirement System, and the Pennsylvania Municipal Retirement System. This report is in accordance with Act 44 and with the Comprehensive Iran Sanctions Accountability and Divestment Act of 2010 (H.R. 2194, 111th Cong. Title II) and the Sudan Accountability and Divestment Act of 2007 (P.L. 110-174) 3.

Thank you for the information. If our office can be of assistance to you on this or other matters involving the Department, please do not hesitate to contact us. For more information about the Department of Justice, please visit our web site at [www.usdoj.gov](http://www.usdoj.gov).

Sincerely,  
  
Portia L. Roberson  
Director

---

## Appendix B: Letter Templates for Scrutinized Companies



**Date**

XXXXX

XXXXX

Dear Sir or Madam,

The Commonwealth of Pennsylvania has enacted legislation (Act 44 of 2010) requiring the divestment of public funds from companies doing business in Iran and/or Sudan that meet certain thresholds of activity. Additionally, the legislation prohibits Pennsylvania's public funds from purchasing securities from companies that appear on the scrutinized business activities list regardless of the funds' direct holdings in such companies.

IW Financial is assisting these four public funds in their efforts to comply with this legislation. As a consequence, IW Financial has developed a list of companies that satisfy the statutory definition of "scrutinized business activities" in Iran and/or Sudan. These ties may be through the activities of a subsidiary.

(Company) appears on the list as having scrutinized business activities in (Country), (Reason). Pennsylvania's public funds, specifically the Pennsylvania Treasury Department, the Public School Employees' Retirement System, the State Employees' Retirement System, and the Pennsylvania Municipal Retirement System have combined assets of over \$80 billion. Your status on the scrutinized business activities lists for Iran and/or Sudan prohibits the funds from purchasing securities in your company. Should your company wish to clarify its scrutinized activities, please contact IW Financial; contact information is provided below.

Whether or not you seek to clarify your involvement, we encourage you either to cease scrutinized business activities in (Country) or convert such operations to inactive business activities in order to be removed from the scrutinized list, thereby enabling the funds to purchase your securities. The Pennsylvania public funds' scrutinized lists are updated quarterly. In addition, the funds are required to publicly disclose our findings in an annual report to the Governor, the Pennsylvania legislature, the public funds' boards, and the general public.

Should you have any questions regarding the Act and the criteria used to develop the list, you may access a copy of the statute at <http://www.legis.state.pa.us> (search under Bill # SB 928).

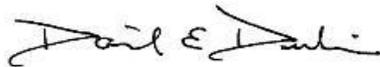
Joseph I. Williams  
300 E. Main Street, Suite 301  
Johnson City, TN, 37604  
JosephWilliams@iwfinancial.com

Thank you for your cooperation.

Sincerely,



Robert M. McCord  
Pennsylvania Treasurer



David Durbin  
Executive Director  
State Employees' Retirement System of Pennsylvania



Jeffrey Clay  
Executive Director  
Public School Employees' Retirement System of Pennsylvania



James Allen  
Secretary  
Pennsylvania Municipal Retirement System



Date

XXXXX

XXXXX

Dear Sir or Madam,

The Commonwealth of Pennsylvania has enacted legislation (Act 44 of 2010) requiring the divestment of public funds from companies doing business in Iran and/or Sudan that meet certain thresholds of activity. Additionally, the Act prohibits Pennsylvania's public funds from purchasing securities from companies that appear on the scrutinized business activities lists regardless of the funds' direct holdings in such companies.

The Pennsylvania Treasury Department is acting in conjunction with the state's other major public funds, specifically the Public School Employees' Retirement System, the State Employees' Retirement System, and the Pennsylvania Municipal Retirement System. In the aggregate, these four public funds have combined assets of over \$80 billion. IW Financial, assisting these four public funds in this effort, has developed a list of companies that satisfy the statutory definition of "scrutinized business activities" in Iran and/or Sudan. These ties may be through the activities of a subsidiary.

(Company) appears on the list as having scrutinized business activities in (Country), specifically (Involvement). Pursuant to the Act, we are sending you this written notice to inform you of your company's status as a scrutinized company and the fact that the securities of your company or a subsidiary may be subject to divestment by Pennsylvania's public funds. Should your company wish to clarify its scrutinized activities, please contact the Pennsylvania Treasury Department; contact information is provided below.

To avoid divestment, your company must either cease scrutinized business activities in (Country) or convert such operations to inactive business. If no action is taken within 180 days of receipt of this notice, your company will remain on the list of scrutinized companies with active ties to Country and be subject to divestment. The Pennsylvania public funds' scrutinized lists are updated quarterly. In addition, the funds are required to publicly disclose our findings in an annual report to the Governor, the Pennsylvania legislature, the public funds' boards, and the general public.

Should you have any questions regarding the Act and the criteria used to develop the list, please refer to the enclosed copy of the legislation, also available online at <http://www.legis.state.pa.us> (search under Bill # SB 928).

Please send all correspondence and any inquiries to:

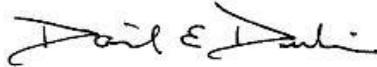
Joseph I. Williams  
300 E. Main Street, Suite 301  
Johnson City, TN, 37604  
JosephWilliams@iwfinancial.com

Thank you for your cooperation.

Sincerely,



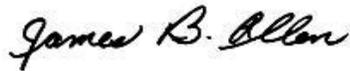
Robert M. McCord  
Pennsylvania Treasurer



David Durbin  
Executive Director  
State Employees' Retirement System of Pennsylvania



Jeffrey Clay  
Executive Director  
Public School Employees' Retirement System of Pennsylvania



James Allen  
Secretary  
Pennsylvania Municipal Retirement System



*Month Date, Year*

*Company Representative*

*Company Name*

*Department*

*Address Line*

Dear Sir or Madam,

The Commonwealth of Pennsylvania has enacted legislation (Act 44 of 2010) that requires the divestment of public funds from -- and prohibits the investment of public funds in -- companies with activities in Iran and/or Sudan that meet certain thresholds. The Pennsylvania Treasury Department is acting in conjunction with the state's other major public funds, specifically the Public School Employees' Retirement System, the State Employees' Retirement System, and the Pennsylvania Municipal Retirement System in implementing the requirements of Act 44. In the aggregate, these four public funds have combined assets of nearly USD 100 billion.

Sustainalytics, an independent research firm assisting these four public funds in this effort, has developed a list of companies that satisfy the statutory definition of "scrutinized business activities" in Iran and/or Sudan. These scrutinized activities may be carried out through a subsidiary. According to research conducted by Sustainalytics:

- *Act 44 criteria met by involvement*
- *Description of involvement*

Pursuant to Act 44, we are sending this written notice to inform you of your company's status as a scrutinized company. Any securities of your company or its subsidiaries that are held by Pennsylvania's public funds may be subject to divestment in the absence of evidence that your company is no longer involved in the scrutinized activities identified by Sustainalytics. Additionally, Pennsylvania's public funds are prohibited from purchasing publicly traded securities in your company.

To avoid these consequences, your company must either cease scrutinized business activities in Iran or convert such operations to inactive business. If no appropriate action is taken within 180 days of receipt of this notice, your company will remain on the list of scrutinized companies with activities in Iran and be subject to divestment and/or prohibition of the acquisition of publicly traded securities in your company. The Pennsylvania public funds' scrutinized lists are updated quarterly. In addition, the funds are required to publicly disclose their findings in an annual report to the Governor, the Pennsylvania legislature, the public funds' boards, and the general public.

Should your company wish to dispute the findings from Sustainalytics, please provide a written response explaining why your company's business activities do not meet the definition for scrutinized business activities provided in Act 44 to the Pennsylvania Treasury Department at your earliest convenience. In the event that you have any questions regarding the Act and the criteria used to develop the list of scrutinized companies, please refer to the legislation accompanying this letter.

For further information on Sustainalytics, please refer to its website: [www.sustainalytics.com](http://www.sustainalytics.com)

Please send all correspondence and any inquiries to:

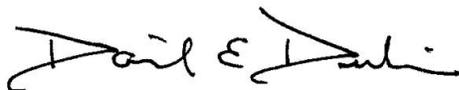
Pennsylvania Treasury Department  
Lloyd Ebright  
132B Finance Building  
Harrisburg, PA 17102  
lebright@patreasury.gov

Thank you for your cooperation.

Sincerely,



Robert M. McCord  
Pennsylvania Treasurer



David E. Durbin  
Executive Director  
State Employees' Retirement System of Pennsylvania



Jeffrey Clay  
Executive Director  
Public School Employees' Retirement System of Pennsylvania



Stephen W. Vaughn  
Secretary  
Pennsylvania Municipal Retirement System

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## Appendix C: Reimbursement Methodology

### Uniform Method for Determining Net Losses and Gains From Divestitures Required by the Act of July 2, 2010 (P.L. \_\_\_\_, No. 44) for the period July 1, 20\_\_ through June 30, 20\_\_

Section 9(2) of the Act of July 2, 2010 (P.L. \_\_\_\_, No. 44) (Act 44 of 2010), 72 P.S. § 3837.9(2), requires the Secretary of the Budget to annually establish, in consultation with each of the public funds that are subject to Act 44 of 2010 (State Employees' Retirement Fund; Public School Employees' Retirement Fund; Pennsylvania Municipal Retirement Fund; any fund of which the State Treasurer is the custodian), a uniform method for determining each fund's net gains, net losses, costs, and expenses when the funds sell, redeem, divest, or withdraw from the funds' direct holdings in the securities of companies that are on the Scrutinized Companies with Activities in Iran List, or on the Scrutinized Companies with Activities in Sudan List.

Each fund subject to Act 44 of 2010 shall calculate its itemized budget request for reimbursement for the period July 1, 20\_\_ through June 30, 20\_\_ as follows:

- Each fund's actual realized net gain or net loss during the reporting period from any sale, redemption, divestiture, or withdrawal of each of the fund's direct holdings in the securities of companies that are on the Scrutinized Companies with Activities in Iran List, or are on the Scrutinized Companies with Activities in Sudan List, or both, during the 26 month divestiture period mandated by Section 4(c) of Act 44 of 2010 shall be calculated for each trade of such a company's securities by subtracting the fund's actual cost basis in the security from the price at which the fund sold, redeemed, divested, or withdrew from the security. The net gain or net loss of each trade shall be reported in chronological order from oldest to most recent trade on the form marked Attachment 1, "Actual Amount Realized on the Sale of Securities." The funds shall report the trades of each company in U.S. dollars, and shall group together each company's trades in alphabetical order.

In the event that a trade was not conducted in U.S. dollars and that the fund has not previously converted that trade into U.S. dollars, the fund must convert the amount of the trade from the currency in which the trade took place into U.S. dollars on the date of the trade. The fund shall first convert its actual costs basis in the security on the date(s) of purchase into U.S. dollars, shall next convert the price received on the date of sale into U.S. dollars, and shall then compute in U.S. dollars the net gain or net loss on the sale in the manner set out above.

If the securities of a company sold on a given date were acquired or purchased by the fund on different dates with different acquisition or purchase prices, the fund may average the original acquisition or purchase prices of that company's security sold on that given date, and then use that average as the fund's actual cost basis in the security to determine its net gain or net loss resulting from the trade of that security.

- Each fund shall report on a form marked Attachment 2, "Actual Expenses Incurred Related to the Administration of Act 44," each transaction fee it directly incurred for each security trade reported on Attachment 1.
- Each fund shall report on a form marked Attachment 2, "Actual Expenses Incurred Related to the Administration of Act 44," the personnel costs the fund directly incurred by each employee that performed duties and responsibilities connected to Act 44 of 2010 for the fund. The fund may

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report each employee's personnel cost either as a percentage of the gross salary paid to the employee, or by multiplying the number of hours or parts of hours that the employee worked to further the fund's duties and responsibilities under Act 44 of 2010 by the employee's hourly rate of pay.

- Each fund may report on a form marked Attachment 2, "Actual Expenses Incurred Related to the Administration of Act 44," the cost of postage, office supplies, and other similar office administration costs incurred by the fund to carry out its duties and responsibilities under Act 44 of 2010.
- Each fund shall report on a form marked Attachment 2, "Actual Expenses Incurred Related to the Administration of Act 44," the amounts paid by the fund to consultants and other third parties retained by the fund to assist the fund: in identifying companies that must be placed on the Scrutinized Companies with Activities in Iran List, or on the Scrutinized Companies with Activities in Sudan List; with monitoring the business activities of companies on the Scrutinized Companies with Activities in Iran List, or on the Scrutinized Companies with Activities in Sudan List; and, in determining when a company must be removed from the Scrutinized Companies with Activities in Iran List, or the Scrutinized Companies with Activities in Sudan List. The fund shall report the name of the consultant or other third party, and shall report the amount paid to the company or their party during the reporting period per invoice issued by the company or third party to the fund. In the event that payments were not made to a consultant or third party in U.S. dollars and that the fund has not previously converted that payments into U.S. dollars, the fund must convert the amount of each payment from the currency in which the trade took place into U.S. dollars on the date of each payment.

The amount of each fund's itemized budget request for reimbursement under Act 44 of 2010 for the period July 1, 20\_\_ through June 30, 20\_\_ submitted by each fund to the Office of the Budget by November 1, 20\_\_ for transmission to the General Assembly shall be the total amount of the fund's actual losses plus the fund's costs and expenses for the reporting period offset by any actual gains experienced by the fund.

## **Appendix D: Securities Held by Funds**

The Four Funds hold thousands of publicly and privately traded securities. Given the size of the list, and in the interest of saving paper, the Four Funds have chosen to include Appendix D in the online version of this report. The online version of this report can be found at [www.patreasury.gov](http://www.patreasury.gov). The list can also be obtained by contacting the Pennsylvania Treasury Department at 717-772-1830.