



Report of Activities Pursuant to Act 44 of 2010

Annual Report
October 18, 2017



October 13, 2017

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 meets 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 prepare 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, 2016 to June 30, 2017.

The report includes references to a number of routine activities the funds have undertaken between July 1, 2017 and its issuance today in the interest of early, and meaningful, dissemination of relevant information.

This report includes:

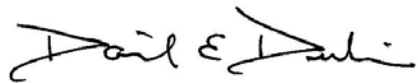
- The most recent scrutinized companies lists (Sudan and Iran).
- A summary of correspondence with scrutinized companies.
- All investments sold, redeemed, divested or withdrawn in compliance with Act 44, the costs and expenses of such transfers, and a determination of net gain or loss associated with such transactions executed in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 the Pennsylvania Treasury Department's website at www.patreasury.gov.

Sincerely,



Joseph M. Torsella
Pennsylvania Treasurer



David Durbin
Executive Director
State Employees' Retirement System of Pennsylvania



Glen R. Grell
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 coordinate their activities through the Pennsylvania Treasury Department.

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

Primary Requirements of Act 44

The Act imposes a number of primary requirements upon 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, their potential to become subject to divestment by the public funds, and the steps they can take 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.

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."

Developments in 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.

On October 31, 2016, President Obama declared that the sanctions against Sudan must continue in effect beyond November 3, 2016 until at least November 2017. President Obama stated that actions and policies of the Government of Sudan continue to pose an unusual and extraordinary threat to the national security and foreign policy of the United States. In addition, the US Department of State continues to designate Sudan as a State Sponsor of Terrorism.

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.

None of the pre-conditions for ceasing public fund obligations regarding company activities in Sudan has occurred as of the time of this report.

Sanctions Against Iran and Impact on Act 44

On January 16, 2016, denoted as “Implementation Day” under the Joint Comprehensive Plan of Action (JCPOA) that had been announced on July 14, 2015, the United States officially lifted or suspended certain sanctions against Iran. On Implementation Day, the P5+1, a group of six world powers comprising the United States, the United Kingdom, France, China, Russia, and Germany, announced that Iran had met the conditions of the JCPOA, according to which key sanctions targeting Iran were to be lifted provided that the International Atomic Energy Agency (IAEA) was of the view that Iran fulfilled its commitments related to its nuclear program.

On Implementation Day, the United States lifted its nuclear-related secondary sanctions. This enables foreign companies that are not owned or controlled by US persons to engage in business activities in Iran. The change removes prohibitions on a broad range of business activities such as the financial, banking, energy, petrochemical, shipping, shipbuilding, and automotive sectors (among others). In addition, the United States has ceased efforts to reduce Iran’s crude oil sales by removing restrictions on the purchases of Iranian crude oil. It has also lifted sanctions on the provision of associated services. In relation to Implementation Day, the US Department of the Treasury, Office of Foreign Assets Control (OFAC), took certain measures to implement sanctions relief.

At the same time, the United States retains a wide range of sanctions relating to Iran. Among these are the primary sanctions, which broadly prohibit U.S. persons (a term that includes business organizations) from property, interests in property, or engaging in transactions or dealings with Iran or the Iranian government. The United States has also left undisturbed a number of relevant existing Executive Orders, including EO 13224 (blocking property, interests in property and transactions with persons who commit, threaten to commit or support terrorism); EOs 13553, 13628 and 13606 (relating to human rights abuses and provision of information technology used to further such abuses); and EOs 12938 and 13382 (addressing proliferation of weapons of mass destruction). Furthermore, in July 2017 the US Department of the Treasury, Office of Foreign Assets Control (OFAC), imposed additional restrictive measures on 22 entities and individuals who were allegedly involved in activities related to missile development, weapons procurement, and software theft.

Rescission of the sanctions may be relevant as Act 44 also contains a sunset clause relating to Iran, which states the following:

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.

Regarding the first condition in the sunset clause, the JCPOA does not end – nor does it include a commitment to end – Iran’s designation as a state sponsor of terrorism, in place since 1984.

Regarding the second condition in the sunset clause, since Implementation Day Congress has not enacted legislation and the President has not issued an executive order that declares that mandatory divestment, as called for in Act 44, interferes with the conduct of United States foreign policy. Therefore, obligations under Act 44 remained in effect after Implementation Day.

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 most recently 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 for 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

REQUIRED ACTIONS	DUE DATE	ACTION TAKEN
A public fund shall annually update, based on evolving information under reporting requirements, and make publicly-available its Scrutinized Companies with Activities in Iran List and Scrutinized Companies with Activities in Sudan List.	11/01/2017	10/13/17
A public fund shall provide a copy of the lists of scrutinized companies, including updates, to all other public funds.	Provided quarterly	07/15/2017

Response of Certain Public Funds

In response to the Act, the Four Funds agreed to coordinate their activities through the Pennsylvania Treasury Department. Among other things, the Four Funds agreed to collaboratively engage an independent, third-party research firm to provide consulting services to assist in carrying out various activities required by the Act.

Methodology Used to Determine Scrutinized Companies

Following a competitive procurement process, Sustainalytics was engaged by the Pennsylvania Treasury Department to begin providing consulting and other related services (including lists of scrutinized companies and associated reporting services) to assist the Four Funds in carrying out various activities required by the Act. Sustainalytics' engagement began on July 1, 2014, upon the expiration of the Pennsylvania Treasury Department's contract with its previous vendor.

Sustainalytics applies the criteria from Act 44 to perform a review of companies that it determines qualify for the criteria and assists in the screening of direct holdings of the Four Funds against those lists. It also supports engagement activities with companies on one or both of the lists. Sustainalytics transmitted its first lists of scrutinized companies to Treasury on July 15, 2014 and has provided quarterly updates since. Sustainalytics continues to provide the Four Funds services to identify and analyze scrutinized involvement of companies in Iran and/or Sudan.

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

The table below shows the list of scrutinized companies based upon involvement in Sudan as of July 2017 and the reason(s) for each company's inclusion on the list, regardless of when it was added.

COMPANY NAME	REASON FOR INCLUSION ON SUDAN SCRUTINIZED LIST
ASEC Company for Mining ASCOM, S.A.E	Government; Oil/Mineral Extraction Activities
AviChina Industry & Technology Company Limited	Government; Sale of Military Equipment
Bharat Heavy Electricals Limited	Government; Power Production
China Petroleum & Chemical Corp.	Government; Oil/Mineral Extraction Activities
Dongfeng Motor Group Company Limited	Government; Sale of Military Equipment
Egypt Kuwait Holding Company (S.A.E.)	Government; Oil/Mineral Extraction Activities
Elsewedy Electric Co	Government; Power Production
Engineers India Limited	Government; Oil/Mineral Extraction Activities
Harbin Electric Company Limited	Government; Power Production
Hifab Group AB	Government; Power Production

COMPANY NAME	REASON FOR INCLUSION ON SUDAN SCRUTINIZED LIST
Managem S.A.	Government; Oil/Mineral Extraction Activities
Mangalore Refinery and Petrochemicals Limited	Government; Oil/Mineral Extraction Activities
Oil and Natural Gas Corp. Ltd.	Government; Oil/Mineral Extraction Activities
Oil India Limited	Government; Oil/Mineral Extraction Activities
Orca Gold Inc.	Government; Oil/Mineral Extraction Activities
PetroChina Co. Ltd.	Government; Oil/Mineral Extraction Activities
Power Construction Corporation of China Ltd.	Government; Power Production
Qalaa Holdings S.A.E.	Government; Oil/Mineral Extraction Activities
Regency Mines Plc	Government; Oil/Mineral Extraction Activities
Schneider Electric SE	Government; Power Production
Shanghai Electric Group Company Limited	Government; Power Production
Siberian Mining Group Company Limited	Government; Oil/Mineral Extraction Activities
Stamper Oil & Gas Corp.	Government; Oil/Mineral Extraction Activities
The Energy House Holding Company K.S.C.P.	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 based upon involvement in Iran as of July 2017 and the reason for each company's inclusion on the list, regardless of when it was added.

COMPANY NAME	REASON FOR INCLUSION ON IRAN SCRUTINIZED LIST
China CSSC Holdings Limited	Oil-related investment of at least US \$20 million since 1996
China Oilfield Services Ltd.	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 Company Limited	Oil-related investment of at least US \$20 million since 1996
CNOOC Ltd.	Oil-related investment of at least US \$20 million since 1996; violated U.S. export controls
Daelim Industrial Co., Ltd.	Oil-related investment of at least US \$20 million since 1996
GAIL (India) Limited	Oil-related investment of at least US \$20 million since 1996

COMPANY NAME	REASON FOR INCLUSION ON IRAN SCRUTINIZED LIST
GS Engineering & Construction Corporation	Oil-related investment of at least US \$20 million since 1996
Gubre Fabrikalari Turk Anonim Sirketi	Oil-related investment of at least US \$20 million since 1996
Hyundai Engineering & Construction Co., Ltd.	Oil-related investment of at least US \$20 million since 1996
Hyundai Heavy Industries Co., Ltd.	Oil-related investment of at least US \$20 million since 1996
Indian Oil Corporation Limited	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
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
Public Joint Stock Company Gazprom	Oil-related investment of at least US \$20 million since 1996
Total S.A.	Oil-related investment of at least US \$20 million since 1996
Tubacex S.A.	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 above.

Sustainalytics provides the lists of scrutinized companies to the Four Funds on a quarterly basis during the reporting period. The Four Funds disclose the lists upon request 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 – essentially a combination of the Iran and Sudan lists of scrutinized companies -- 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 list of prohibited investments during the reporting year and the quarter(s) in which they appeared.

COMPANY	IRAN	SUDAN	OCT 2016 LIST	JAN 2017 LIST	APRIL 2017 LIST	JULY 2017 LIST
ASEC Company for Mining ASCOM, S.A.E		X	X	X	X	X
AviChina Industry & Technology Company Limited		X	X	X	X	X
Bharat Heavy Electricals Limited		X	X	X	X	X
China CSSC Holdings Limited	X		X	X	X	X
China Oilfield Services Ltd.	X		X	X	X	X
China Petroleum & Chemical Corp.	X	X	X	X	X	X
China Shipbuilding Industry Company Limited	X		X	X	X	X
CNOOC Ltd.	X		X	X	X	X
Daelim Industrial Co., Ltd.	X		X	X	X	X
Dongfeng Motor Group Company Limited		X	X	X	X	X
Egypt Kuwait Holding Company (S.A.E.)		X	X	X	X	X
Elsewedy Electric Co		X	X	X	X	X
Engineers India Limited		X	X	X	X	X
GAIL (India) Limited	X		X	X	X	X
GS Engineering & Construction Corporation	X		X	X	X	X
Gubre Fabrikalari Turk Anonim Sirketi	X		X	X	X	X
Harbin Electric Company Limited		X	X	X	X	X
Hifab Group AB (Publ)		X	X	X	X	X
Hyundai Engineering & Construction Co., Ltd.	X				X	X
Hyundai Heavy Industries Co., Ltd.	X				X	X
Indian Oil Corporation Limited	X		X	X	X	X
JNK Heaters Co., Ltd.	X		X	X		
Liquefied Natural Gas Limited	X		X	X	X	X
Managem S.A.		X	X	X	X	X

COMPANY	IRAN	SUDAN	OCT 2016 LIST	JAN 2017 LIST	APRIL 2017 LIST	JULY 2017 LIST
Mangalore Refinery and Petrochemicals Limited		X	X	X	X	X
Oil and Natural Gas Corp. Ltd.	X	X	X	X	X	X
Oil India Limited	X	X	X	X	X	X
Orca Gold Inc.		X	X	X	X	X
PetroChina Co. Ltd.	X	X	X	X	X	X
Power Construction Corporation of China Ltd.		X	X	X	X	X
Public Joint Stock Company Gazprom	X		X	X	X	X
Qalaa Holdings S.A.E.		X	X	X	X	X
Regency Mines Plc		X	X	X	X	X
Schneider Electric S.E.		X	X	X	X	X
Shanghai Electric Group Company Limited		X	X	X	X	X
Shanghai Zhenhua Heavy Industries Co., Ltd.	X		X	X		
Siberian Mining Group Company Limited		X	X	X	X	X
Stamper Oil & Gas Corp. (previously: Panorama Petroleum)		X	X	X	X	X
The Energy House Holding Company K.S.C.P.		X	X	X	X	X
Total S.A.	X					X
Tubacex S.A.	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 2016.

COMPANY NAME	IRAN	SUDAN	CHANGE: REASON FOR CHANGE*	DATE OF CHANGE
Hyundai Engineering & Construction Co., Ltd.	X		Added: New involvement identified.	04/15/2016
Hyundai Heavy Industries Co., Ltd.	X		Added: New involvement identified.	04/15/2016

COMPANY NAME	IRAN	SUDAN	CHANGE: REASON FOR CHANGE*	DATE OF CHANGE
Indian Oil Corporation Limited		x	Removed: Company was removed as there is no recent evidence that indicates that the company meets criteria.	01/15/2017
JNK Heaters Co., Ltd.	x		Removed: Company was removed as there is no recent evidence that indicates that the company meets criteria.	04/15/2016
PTT Global Chemical Public Company Limited	x		Removed: Company was removed as there is no recent evidence that indicates that the company meets criteria.	10/15/2016
The Siam Cement Public Company Limited	x		Removed: Company was removed as there is no recent evidence that indicates that the company meets criteria.	10/15/2016
Total S.A.	x		Added: New involvement identified.	07/15/2017
Tubacex S.A.	x		Added: New involvement identified.	07/15/2017

Engagement and Company Correspondence

Each company on either of the scrutinized lists was sent a written notice informing it 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 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. Companies face differences in the consequences and in the level of engagement by the Four Funds depending upon the category of scrutinized companies into which they fall (*i.e.*, whether they are already in any fund's portfolio or not currently held by any of the funds.)

- Act 44 prohibits the Four Funds from any additional investment in scrutinized companies whose securities are already directly held. In addition, the Act allows these companies 180 days following notification to announce significant action toward ceasing scrutinized activities or suffer divestment within 26 months after the 180-day period expires.
- The Four Funds are prohibited from initiating investment in scrutinized companies that are not already directly held.

During the term of its contract, IW Financial – the Four Funds' initial consultant – sent written notices to companies not directly held by the Four Funds. Company responses were directed to IW Financial, which determined whether the responses were 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 were 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.

Starting with the July 15, 2014 lists of scrutinized companies (which were provided by Sustainalytics to the Four Funds and used to determine scrutinized holdings), the Four Funds began sending written notification to all companies newly identified as scrutinized by Sustainalytics, regardless of whether they were held by the Four Funds. The revised letters directed scrutinized companies to provide responses to the Four Funds through Treasury. Treasury then forwarded those responses to Sustainalytics, which provided Treasury a recommendation on whether the response was sufficient to warrant a change in scrutinized status.

Sustainalytics continues to prepare the notifications for Treasury to send to the scrutinized companies and reviews any responses received. Tables 4 through 6 provide a summary of engagement with scrutinized companies conducted during the reporting period.

A form of the notification letter sent by Treasury to scrutinized companies during the reporting period is included in Appendix B.

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

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
Hyundai Engineering & Construction Co., Ltd.		x	April 18, 2017
Hyundai Heavy Industries Co., Ltd.		x	April 18, 2017

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 identifies 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, a summary of their response, what actions the Four Funds took due to the correspondence, and the effective date of those actions.

COMPANY NAME	IRAN	SUDAN	DATE RESPONDED	RESPONSE	ACTIONS TAKEN	EFFECTIVE DATE
No responses were received 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

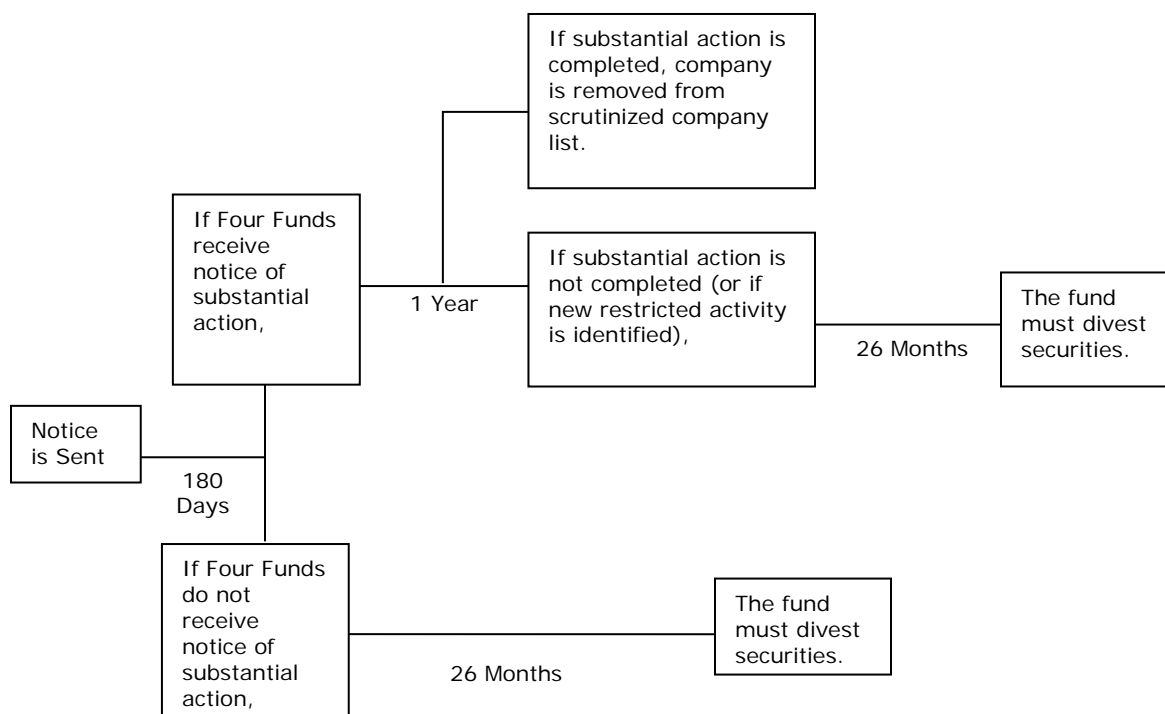
Table 6 lists companies that were determined to not be directly held by one or more of the Four Funds during the reporting period that have responded to the notification of scrutinized status, a summary of their response, what actions were taken due to their correspondence, and the effective date of those actions.

COMPANY NAME	IRAN	SUDAN	DATE RESPONDED	RESPONSE	ACTIONS TAKEN	EFFECTIVE DATE
No responses were received from companies determined as 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. However, the company, 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.

In some years, this table will also include companies that have submitted a plan of substantial action to cease scrutinized activities in the country of concern. The Four Funds will monitor those 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 is required to 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	n/a	04/24/2017

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 following its failure to announce substantial action, and the net proceeds realized from those transactions, for the period between July 1, 2016 and June 30, 2017. 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 other positions in any of the listed companies for which the applicable divestment deadlines have yet to occur.

Table 8: Investment Sales of Scrutinized Companies for the Period Ending June 30, 2017

SCRUTINIZED COMPANY	AMOUNT
CNOOC Ltd.	\$7,494.576.81
Total	\$7,494.576.81

Cost of Compliance with Act 44

In addition to the investments sold, redeemed, divested or withdrawn in compliance with 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 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 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, 2017. Table 9 presents investment costs and other expenses for the most recent fiscal year by category. Table 10 presents investment costs and other expenses 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 and Expenses for the Period Ending June 30, 2017 by Category

EXPENSE	AMOUNT
Consulting Services	\$22,800.00
Investment Losses and or (Gains)	(\$2,418,913.02)
Postage	\$75.44
Salaries of Staff	\$22,209.88
Supplies	\$47.46
Technology	\$0.00

Table 10: Cost and Losses (Gains) of Investments for the Period Ending June 30, 2017 by Fund

EXPENSE	AMOUNT
PMRS	
Consulting Services	\$5,700.00
Investment Losses (Gains)	\$0.00
Salaries of Staff	\$389.84
<i>PMRS Total Expenses Reimbursed by the General Fund</i>	<i>\$6,089.84</i>
PSERS	
Consulting Services	\$5,700.00
Investment Losses (Gains)	\$0.00
Salaries of Staff	\$3,684.80
<i>PSERS Total Expenses Reimbursed by the General Fund</i>	<i>\$9,384.80</i>
SERS	
Consulting Services	\$5,700.00
Investment Losses (Gains)	(\$2,418,913.02)
Salaries of Staff	\$825.64
<i>SERS Total Expenses Reimbursed by the General Fund*</i>	<i>\$0.00</i>
Treasury	
Consulting Services	\$5,700.00
Investment Losses (Gains)	\$0.00
Postage	\$75.44
Salaries of Staff	17,309.60
Supplies	\$47.46
Technology	\$0.00
<i>Treasury Total Expenses Reimbursed by the General Fund*</i>	<i>\$23,132.50</i>
<i>Four Funds' Total Expenses Reimbursed by the General Fund</i>	<i>\$38,607.14</i>

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

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 205302010 AUG 11 AM 10:24
(202) 514-3465
<http://www.usdoj.gov/oipl/>
ROOM 129

August 9, 2010

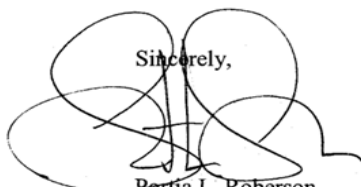
Mr. Robert M. McCord
State Treasurer
Treasury Department
Commonwealth of Pennsylvania
129 Finance Building
Harrisburg, PA 17120

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.

Sincerely,


Portia L. Roberson
Director

Appendix B: Letter Template for Scrutinized Companies



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 ("Treasury") 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 whose activities it believes 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*

This information, if accurate, would appear to describe activities that satisfy the definition of scrutinized business activities found within Act 44.

Should your company wish to dispute the findings by Sustainalytics, please provide a written response to Treasury no later than 45 days from the date of this letter explaining why your company's business activities do not meet the definition for scrutinized business activities provided in Act 44. In the absence of an appropriate response from your company that it is no longer involved in the scrutinized activities identified by Sustainalytics, your company will continue to be included in the lists of scrutinized companies utilized by Pennsylvania's public funds.

Under scrutinized status, any securities of your company or its subsidiaries that are held by Pennsylvania's public funds may be subject to divestment and Pennsylvania's public funds will be prohibited from purchasing publicly traded securities in your company. Act 44 also requires the funds to publicly disclose their findings in an annual report to the Governor, the Pennsylvania legislature, the public funds' boards, and the general public.

To avoid the consequences of being subject to scrutinized status, you must, within 180 days of receipt of this notice, announce by public disclosure substantial action specific to your business activities in Sudan and must then, within one year of your public disclosure, implement your action plan. If no appropriate response is undertaken within 180 days of receipt of this notice, your company will remain on the list of scrutinized companies with activities in Sudan 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 the event that you have any questions regarding the Act or 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.

Please send all correspondence and any inquiries to me at the following address:

Keith Welks, Deputy State Treasurer
Pennsylvania Treasury Department
101 Finance Building
Harrisburg, PA 17120
kwelks@ptreasury.gov

Thank you for your cooperation.

Sincerely,

Keith Welks
Deputy State Treasurer for
Fiscal Operations/Policy

KW/aml

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 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. The list can also be obtained by contacting the Pennsylvania Treasury Department at (717) 772-1830.