



**OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
277 EAST TOWN STREET, COLUMBUS, OH 43215-4642  
1-800-222-PERS (7377)  
[www.opers.org](http://www.opers.org)

## **MEMORANDUM**

**DATE:** August 19, 2014  
**TO:** OPERS Retirement Board Members  
**FROM:** Keith Thornell, Investment Compliance Manager  
**RE:** **Semi-Annual Iran and Sudan Divestment Update**

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### **Purpose**

The Board's Iran and Sudan Divestment Policy ("Policy") requires Investment Compliance Staff to report semi-annually concerning compliance with the Policy. This report details progress since the February 2014 report.

### **Background**

The Policy, as adopted in September 2007 and last reaffirmed in February 2014, is consistent with fiduciary duties, and:

- Applies to publicly-traded stocks and bonds in the Non-U.S. Equity and Fixed Income Asset Classes that are actively managed in separate accounts within the Defined Benefit and Health Care Funds ("Funds");
- Establishes a goal of reducing investment exposure to companies with ties to Iran and Sudan when comparable investments offering similar quality, return and safety are available; and
- Requires Investment Staff to develop a procedure to identify and engage companies with ties to Iran and/or Sudan.

To administer the Policy, Investment Staff created an Iran and Sudan Divestment Committee ("ISDC") whose members are OPERS General Counsel, its Director-External Relations and Investment Compliance Staff. Other Staff members participate in ISDC activities, as required.

## **Scrutinized Companies**

The ISDC's Screening Criteria ("Screening Criteria"), included as Attachment A, remain unchanged. As previously reported, a screening vendor, MSCI ESG Research, Inc. ("Screening Vendor"), helps identify companies that meet these Criteria. The Scrutinized Company List ("List") in effect from January 1 through June 30, 2014 is included as Attachment B. It includes the names of 68 companies, a net increase of seven company names from the List in effect from July 1 through December 31, 2013.

## **Exposure to Scrutinized Companies**

OPERS' exposure to Scrutinized Companies as of June 30, 2014 is detailed in Attachment C. It indicates that, between January 1, 2014 and June 30, 2014 the number of Scrutinized Companies whose securities were owned by the Funds increased by one to four. Similarly, in terms of total market value, OPERS' exposure to Scrutinized Companies increased by \$7,073,000 (from \$40,187,000 to \$47,260,000).

All of these securities were purchased by external public market managers. They cite a lack of comparable securities offering similar quality, return and safety as their reason for continuing to hold securities of companies on the List.

## **Engagement Update**

The OPERS Iran and Sudan Divestment screening advisor provided staff with an initial Scrutinized List of 69 companies with operations in Iran and/or Sudan that appeared to meet the Board's screening criteria. On May 29, 2014, Corporate Governance staff sent letters to each of these companies. If an identified company provided information about its business activities in Iran and/or Sudan, and the firm included the rationale why it believed the company did not meet OPERS' screening criteria, staff sent such information to the screening advisor for review. Staff received information from a number of companies that received our letters and turned the relevant information in to our screening advisor. The screening advisor performed additional research to determine whether the information supported the removal of the company from the Iran and/or Sudan Scrutinized List. The submission of additional information resulted in a decrease in the number of companies on the List to 68. The new List is effective July 1, 2014.

Staff also continued its outreach with other institutional investors regarding Iran and/or Sudan divestment issues.

## **Next Steps**

Investment Staff and the ISDC will continue to monitor the Policy. Investment Compliance Staff will report to the Board concerning compliance with it in February 2015.

## Attachment A: OPERS Iran and Sudan Divestment Committee Screening Criteria

A Scrutinized Company is one that:

1. Has business operations that involve contracts with or provision of supplies or services to:
  - (i) the government of Sudan;
  - (ii) companies in which the government of Sudan has any direct or indirect equity share;
  - (iii) consortiums or projects commissioned by the government of Sudan; OR
  - (iv) companies involved in consortiums or projects commissioned by the government of Sudan; AND either (a) or (b) of the following applies:
    - (a) (1) More than 10% of its revenues or assets that are linked to Sudan oil-related activities or mineral extraction activities;
    - (2) Less than 75% of its 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
    - (3) The company has failed to take substantial action specific to Sudan; OR
    - (b) (1) More than 10% of its revenues or assets that are linked to Sudan involve power production facilities;
    - (2) Less than 75% of its power production activities include projects whose intent is to provide power or electricity to the marginalized populations of Sudan; AND
    - (3) The company has failed to take substantial action specific to Sudan; OR
2. Is complicit in the Darfur genocide; OR
3. Supplies military equipment within Sudan; OR
4. Has business operations involving contracts with or providing supplies or services to:
  - (i) the government of Iran;
  - (ii) companies in which the government of Iran has any direct or indirect equity share;
  - (iii) consortiums or projects commissioned by the government of Iran; OR
  - (iv) companies involved in consortiums or projects commissioned by the government of Iran; AND
  - (v) More than 10% of its revenues or assets are linked to Iran oil-related activities, mineral extraction activities or petroleum resources.

## Attachment A: OPERS Iran and Sudan Divestment Committee Screening Criteria

The following definitions are used for determining inclusion on the OPERS Iran and Sudan Divestment Committee Screening Criteria:

**Military Equipment** The active business operation must be involved with the production, distribution, leasing, or supply of weapons, arms, military supplies or military equipment in Iran or Sudan; or in the supply of goods and services to any armed force actively participating in the conflict in Sudan.

**Mineral Extraction** The active business operation must be involved in the exploration, extraction, transporting or wholesale selling or trading of elemental minerals or associated metal alloys oxides; or the facilitation of such operations through service and supply activities.

**Oil Related Activities** The active business operation must be involved with owning rights to oil blocks, exporting, extracting, producing, refining, processing, exploring for, transporting, or trading of oil; or, constructing, maintaining, or operating a pipeline, refinery, or other oil-field infrastructure; or facilitating such operations through service and supply activities.

**Power Production Activities** The active business operation must be involved in any business operation that involves a project commissioned by the national electric corporation of Sudan or other similar entity of the government of Sudan, whose purpose is to facilitate power generation and delivery; or facilitating such operations through service and supply activities.

**Substantial Action** Adopting, publicizing, and implementing a formal plan to cease scrutinized business operations within one year and to refrain from any such new business operations; undertaking significant humanitarian efforts in conjunction with an international organization, the government of Sudan, the regional government of southern Sudan, or a nonprofit entity evaluated and certified by an independent third party to be substantially in a relationship to the company's Sudan business operations and of benefit to one or more marginalized populations of Sudan; or through engagement with the government of Sudan, materially improving conditions for the genocidal victimized population in Darfur.

**Complicit** Taking actions during any preceding twenty-month period that directly support or promote the genocidal campaign in the Darfur region of Sudan, including, but not limited to, preventing members of the populations of the Darfur region of Sudan negatively affected by genocide from communicating with each other, encouraging Sudanese citizens to speak against the internationally approved security force that provides aide to the Darfur region; actively working to deny, cover up, or alter the record on human rights abused in Darfur; or other similar actions.

**Attachment B: Scrutinized Company List effective January 1, 2014 –  
June 30, 2014**

Al Enmaa Real Estate Co KSCC	NIPPO CORPORATION
ALAFCO Aviation Lease and Finance Company KSCC	OIL AND NATURAL GAS CORPORATION LIMITED
ASEC Co for Mining SAE	OIL INDIA LIMITED
AviChina Industry & Technology Company Limited	Orca Gold Inc
Bharat Heavy Electricals Limited	PetroChina Company Limited
BP CAPITAL MARKETS P.L.C.	Petroliam Nasional Berhad
China BlueChemical Ltd	PETRONAS Capital Limited
China Communications Construction Company Limited	PETRONAS CHEMICALS GROUP BERHAD
China National Petroleum Corporation	Petronas Dagangan Bhd
China Oilfield Services Limited	Petronas Gas Berhad
China Petroleum & Chemical Corporation	Petrovietnam Drilling & Well Services Corporation
CNOOC Finance (2003) Limited	Petrovietnam Fertilizer and Chemicals Corporation
CNOOC Finance (2011) Limited	Petrovietnam Technical Services Corporation
CNOOC Finance (2012) Limited	Petrovietnam Transportation Corporation
CNOOC LIMITED	PT PERTAMINA (PERSERO)
COSL Finance (BVI) Limited	Regency Mines PLC
Daelim Industrial Co., Ltd	Rosier SA
Daqing Huake Company Limited	Schneider Electric SA
El Sewedy Electric Co SAE	SHANGHAI ZHENHUA HEAVY INDUSTRIES CO., LTD.
eni finance international S.A.	Sinopec Kantons Holdings Limited
Eni S.p.A.	Sinopec Shanghai Petrochemical Company Limited
GAZPROM OAO	Sirocco Energy Ltd
Harbin Electric Company Limited	Societe Metallurgique D'Imiter
HYUNDAI HEAVY INDUSTRIES CO.,LTD	Statesman Resources Ltd
JIANGXI HONGDU AVIATION INDUSTRY CO., LTD.	STATOIL ASA
Jinan Diesel Engine Company Limited	Sudatel Telecom Group Ltd
KUWAIT FINANCE HOUSE K.S.C.	The Energy House Holding Company
LANKA IOC PLC	TOTAL CAPITAL CANADA LTD.
LS INDUSTRIAL SYSTEMS CO.,LTD	TOTAL CAPITAL INTERNATIONAL S.A.
Maire Tecnimont S.p.A.	TOTAL CAPITAL S.A.
MANAGEM S.A.	TOTAL GABON S.A.
MANGALORE REFINERY AND PETROCHEMICALS LIMITED	TOTAL KENYA LIMITED
MISC Berhad	TOTAL NIGERIA PLC
MISC Capital Ltd.	TOTAL SA

**Attachment C: Exposure to Scrutinized Companies**

<u>Issuer</u>	<u>December 31, 2013</u>		<u>June 30, 2014</u>	
	<u># Shares</u>	<u>Market Value (\$000) omitted</u>	<u># Shares</u>	<u>Market Value (\$000) omitted</u>
<b>Stocks</b>				
Gazprom	296,457	2,535		
Nippo Corp	223,000	3,699	80,000	1,345
Schneider Electric SA	282,555	24,617	259,545	24,430
<b>Totals</b>		30,851		25,775
<b>Fixed Income</b>				
CNOOC Finance 2013 Ltd				16,954
Gazprom		9,336		4,531
<b>Total Market Value</b>		<b>40,187</b>		<b>47,260</b>
<b>Number of Issuers</b>	<b>3</b>		<b>4</b>	