SPECIAL REPORT:

DIVESTMENT AND PENNSYLVANIA'S PUBLIC EMPLOYEE RETIREMENT SYSTEMS

A Report to the General Assembly of the Commonwealth of Pennsylvania Concerning Restrictive Investment Mandates and their Potential Impact upon the Public School Employees' Retirement System and the State Employees' Retirement System

Commonwealth of Pennsylvania
Public Employee Retirement Commission

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Commonwealth of Pennsylvania
Public Employee Retirement Commission
Harrisburg, Pennsylvania

October 2007

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COMMONWEALTH OF PENNSYLVANIA
PUBLIC EMPLOYEE RETIREMENT COMMISSION
HARRISBURG
17120

October 2007

To: Governor Rendell
and Members of the General Assembly

The attached report was prepared by the Commission in response to the national movement to encourage legislatively mandated divestment from companies that do business with politically, socially, or morally repugnant countries or causes. Most recently, these initiatives have been embodied in House Bill Number 1140 (Sudan divestment) and House Bill Numbers 1085 and 1087 (divestment from companies doing business with State sponsors of terrorism).

The report presents a general discussion of the issues involved in divestment legislation, summaries of analytical studies of prior economic sanction programs, including their cost and effectiveness, the concerns raised by State involvement in foreign affairs and reliance upon private contractors to identify targeted corporations for divestment, and the cost projections of the two State retirement systems if the terror-sponsor legislation were passed.

On behalf of the Commission, I hereby submit the report for your review and consideration. The Commission hopes that you will find it beneficial in your deliberations on this important and complex aspect of public employee retirement system administration.

Sincerely,

Paul D. Halliwell
Chairman

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Executive Summary

This report concerns one element of economic sanctions intended to influence the policies and practices of foreign governments: divestment of securities and shares of companies that do business with targeted nations. Probably because of the ascendance of public pension systems as major institutional investors, divestment legislation frequently addresses the investment activities of those systems, to the exclusion of other forms of financial enterprise.

Essentially, the arguments for and against divestment focus on the relative merits or difficulties inherent in the choice between isolation and engagement. A major shareholder can exert substantial influence on corporate policies, but a former investor has no voice in its operations. Still, the threat of divestment may cause a corporation to amend its policies to avoid public opprobrium.

While the usefulness of international economic sanctions in foreign relations is not disputed, the value of divestment, alone, has not been substantiated. Moreover, there are issues of federal preemption, fiduciary responsibility, and the lack of a recognized and verified list of corporate targets, which must be considered.

The speculative nature of divestment and replacement investment precludes precise actuarial estimates. The State Employees' Retirement System (SERS) and the Public School Employees' Retirement System (PSERS) project a general 0.5% reduction in the assumed rates of return, or an increase in employer contributions of approximately 3.5% of payroll ($198,170,000 for SERS and $449,000,000 for PSERS). Just the transaction costs necessary to divest from the "highest offenders" in Sudan would be $183,000 for SERS and $831,000 for PSERS ($7,270,000 for SERS and $53,549,000 for PSERS if all companies divested that "engage in business" with terror sponsoring states). A sampling of school districts indicates increased annual taxpayer costs ranging from $100,000 (Cumberland Valley) to $3,000,000 (Philadelphia) for each 10 basis point decrease in investment earnings.

There will, of course, be ongoing costs of monitoring investments for compliance with the legislation as companies cease or begin to do business with prohibited nations. This cost is compounded by the fact that no governmental agency provides a list of such companies and the pension systems are compelled to purchase that service from private contractors, thereby delegating substantial administrative discretion.

Obviously, no one supports terror, genocide, deprivation of human rights, or other wrong doing. That is not the issue. What is the issue is the propriety and effectiveness of pension fund divestment as a means to deter such conduct. This report seeks to draw attention to specific matters that deserve consideration in making that decision.

PART I

INTRODUCTION AND OVERVIEW

INTRODUCTION

The Public Employee Retirement Commission was created in 1981 by the Public Employee Retirement Commission Act (Act 66 of 1981). The Commission is composed of nine members, five of whom are appointed by the Governor with the advice and consent of the Senate, and four of whom are appointed by the leaders of the House and Senate.

Under the Public Employee Retirement Commission Act, the Commission has several mandated responsibilities. One of the Commission's most important responsibilities is to study, on a continuing basis, policy issues relating to the Commonwealth's public employee retirement systems and, when appropriate, to provide relevant information and advice on such issues to the Commonwealth's policy makers. The following special report entitled *Divestment and Pennsylvania's Public Employee Retirement Systems* has been prepared in response to that mandate.

The purpose of the following special report is to provide information on the issue of divestment generally, and on the potential impact of specific divestment mandates upon the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS). The special report contains a summary description of PSERS and SERS, a general discussion on the topic of divestment, including a brief history of divestment within the context of "socially responsible investing," provides a description of the current situation with respect to divestment efforts nationally, and presents the major arguments for and against divestment as a tool for facilitating political and social change. The report includes a discussion of the major policy considerations associated with the imposition of divestment mandates both generally, and as they apply to specific legislative proposals now pending in the General Assembly.

The Commission wishes to express its sincere appreciation to the many public pension systems, associations and other organizations and individuals who contributed to this report. The Commission wishes to convey special thanks to the Ohio Retirement Study Council, the National Association of State Retirement Administrators (NASRA), the National Conference of State Legislatures, and most importantly to the staffs of both the Public School Employees' Retirement System and the State Employees' Retirement System, without whose cooperation this report would not have been possible.

OVERVIEW

In recent years, much attention has been focused on the investment practices of public pension funds. For the past two decades, the trend among public pension plans has generally been toward loosening restrictions on the types of investments that pension plan trustees may make and empowering trustees to structure diversified investment portfolios intended to maximize investment returns across all asset classes while controlling risk. In general, the trend has been a positive one, resulting in significantly enhanced investment return rates.

During the current and past several legislative sessions of the Pennsylvania General Assembly, a number of bills and resolutions have been introduced in both the House and Senate prohibiting or limiting the investment of certain state or state-related funds, including assets managed by the Public School Employees' Retirement System and the State Employees' Retirement System. Most of these divestment proposals have dealt with corporations or other entities that: 1) engaged in business activities in certain countries regarded as hostile to U.S. interests; 2) engaged in business activities in countries with oppressive regimes that routinely violate international norms and fundamental human rights; or 3) in corporations engaged in business activities which themselves could be considered harmful to society or which are regarded as having no redeeming social value.

There are three divestment proposals currently before the Pennsylvania General Assembly that affect PSERS and SERS (all three bills are enclosed with this report as Appendix I). House Bill Number 1140, sponsored by Representative Babette Josephs, is limited in scope, imposing a targeted divestment mandate against corporations that have business relationships directly with the Sudanese government or government-created projects, impart minimal benefit to Sudan's underprivileged, and have demonstrated no substantial corporate governance policy regarding the Darfur situation. The bill requires divestment only from those companies that have proven unresponsive after a period of shareholder engagement. The bill also contains a "stop-loss" provision that permits the cessation of divestment activities under certain conditions and effectively limits the liability of the affected public funds. The bill also contains a provision requiring annual reimbursement from the Commonwealth General Fund for losses suffered by the affected public funds as a result of divestment.

Two other bills, House Bill Numbers 1085 and 1087, sponsored by Representative Josh Shapiro, impose broad divestment mandates upon SERS and PSERS, respectively, allowing no discretion and few exceptions, and requiring immediate divestment of all holdings in entities engaged in business with a designated state sponsor of terrorism following a 90-day review by the Boards of PSERS and SERS.

The divestment issue is not confined to Pennsylvania. Divestment legislation of widely varying scope has been introduced in many different states and localities, and some has been enacted. Enclosed as Appendix II, are two tables from the National Conference of State Legislatures (NCSL). The first summarizes legislation that was enacted during the 2005 and 2006 sessions. The second summarizes bills that were introduced during the 2007 session. Both also are available on the NCSL Web site, www.ncsl.org, with links to the referenced legislation.

A review of the literature on this subject reveals several core arguments both for and against divestment. Advocates of divestment and other restrictive investment policies based upon nontraditional investment criteria generally argue that:

- Public institutions, supported by public money, have a moral imperative to adjust investment policies to coincide with generally agreed upon societal values or objectives.

- Investing in corporations or other entities that do business with certain countries hostile to the U.S. or with countries that perpetrate atrocities against their populations, provides financial support for these countries and contributes to maintaining or enhancing the political or military power of regimes in those countries.

- Adopting a restrictive investment policy will have little or no impact upon a public fund due to the ready availability of adequate replacement investments that will produce comparable investment returns.

- Investments in companies doing business with certain countries or in certain industries may, in the long term, prove to be poor investment choices due either to political instability in the country or region or to the anticipated decline of a particular industry.

Those who oppose divestment mandates and other restrictive investment policies based upon nontraditional investment criteria generally argue that:

- Restrictive investment mandates interfere with the fiduciary duties of the pension plan trustees by requiring the trustees to manage plan assets for a purpose other than the exclusive benefit of the plan participants.

- Restrictive investment mandates will, in the long term, result in reduced investment returns due to the resulting restricted "universe" of potential investments, decreased asset diversification and increased investment risk. Subsequently, increased contributions from public employers, and ultimately the taxpayers, will be required to offset the effects of diminished investment performance.

- Compulsory divestment places the selling fund at a competitive disadvantage vis-a-vis buyers, who will take advantage of the legal pressures to obtain the divested securities at a discounted rate.

- The foreign policy issues associated with divestment are profound and fall within the purview of the federal government, not that of state or local governments.

- Due to the size and nature of global investment markets, uncoordinated, ad hoc divestment efforts will at best prove ineffectual and worse, may have negative consequences that are unintended or counterproductive.

Divestment advocates are sincere in their desire to address genuine evils in the world, ranging from genocide in Sudan to American urban violence. They are also sincere both in their faith that requiring pension funds to divest assets can constitute a meaningful response to those issues and in their belief that such divestment can be accomplished at little or no cost to the pension systems or taxpayers.

However, when examined closely, divestment mandates present a series of complex issues that should be examined, and have potential consequences that should be fully understood, before the Commonwealth requires that its pension funds follow such a course of action. The major issues include the following:

- The legal tension between divestment mandates and the fiduciary duties of prudence and loyalty to which public pension plan trustees are subject, including the question of how public plan trustees can be indemnified for any fiduciary liability incurred by mandated divestment.

- What, if any, factual basis exists for the core assumption implicit in divestment, namely that divestment can achieve meaningful change in a targeted regime or company's conduct, and consequently achieve the activists' goals.

- The lack of a uniform, transparent and agreed upon list of companies that meet the various divestment movements' criteria for divestment, and the related question of what liability plan trustees may be subject to if choosing or compiling a divestment list is left to their discretion.

- Additional unresolved legal issues, including federal preemption issues of the kind that have led to litigation in other states, challenging the legality of divestment initiatives; and the potential costs of such litigation.

- The apparent inconsistency between the public policy goals of divestment and other Commonwealth public policy initiatives, such as expending public funds to encourage foreign companies to locate or expand in the Commonwealth, or to support expansion of foreign trade with those companies, where the divestment campaigns target many of those same companies.

- The direct costs of divestment that would be incurred by public pension plans, including transaction costs, lost opportunity costs, and increased administrative costs associated with implementing a divestment mandate.

- The potential indirect actuarial impact on public pension plans and their contributing employers if divestment necessitates a lower investment earnings assumption as a consequence of a substantially reduced investment universe or opportunity set.

- The indirect costs potentially incurred by state government and local school districts, including increased employer contributions and thus taxes, to fund either shortfalls in actual public pension plan earnings or reductions in earnings assumptions, or both.

PART II

BACKGROUND AND DISCUSSION

THE RETIREMENT SYSTEMS

The Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS) are large, multi-employer, defined benefit public employee retirement systems and are among the best performing public employee retirement systems in the United States. Under the retirement systems' respective defined benefit plans, public school and state employees are guaranteed a benefit upon retirement. The retirement benefit is calculated using a statutory formula based upon age, service and average earnings in the final years of service.

The contributions required to be made to a defined benefit plan by participating public employers are linked to a number of demographic and economic assumptions. Chief among these is the investment return assumption. If the return on investments is greater than anticipated, employer contribution requirements may be reduced. Conversely, if investment returns are lower than expected, the public employer must make up the difference by increasing contributions to the plan.

According to the most recent actuarial valuation report for PSERS, as of June 30, 2006, the membership of PSERS consisted of 263,350 active members and 161,813 retirees and survivor beneficiaries. The system's funded ratio is the ratio of assets to the actuarial accrued liability. As of June 30, 2006, PSERS' funded ratio was 81.2% with actuarial value of assets of $52.6 billion.

According to the most recent actuarial valuation report for SERS, as of December 31, 2006, the membership of SERS consisted of 110,972 active members and 102,060 retirees and survivor beneficiaries. The system's funded ratio is the ratio of assets to the actuarial accrued liability. As of December 31, 2006, SERS' funded ratio was 92.7% with actuarial value of assets of $28.1 billion.

Like most large defined benefit public employee retirement systems throughout the United States, PSERS and SERS are funded on an actuarial basis and both utilize variations of an actuarial cost method known as the entry age normal cost method. The entry age normal cost method allocates the annual cost of all future benefits to be paid by the plan by spreading those costs over the entire period of a member's service from the date of entry to the member's anticipated date of retirement. These costs are expressed both as a dollar amount and as a percentage of actual or projected payroll. This method results in the calculation of two costs: 1) the annual contributions required to establish sufficient reserves to support future retirement benefits when made from entry age to normal retirement age, known as the "normal cost"; and 2) the aggregate normal cost of all members of the plan for prior years of service, known as the actuarial accrued liability (AAL). If assets of the plan are less than the accrued liability, then a deficit exists. This deficit is known as an unfunded actuarial accrued liability (UAAL). Because this liability has not been accounted for or funded, it must be amortized through annual payments over a specified number of years, and the required annual payments are reflected in the total determination of the employer annual contribution requirement.

PSERS and SERS are funded by three sources of revenue: 1) employer contributions, 2) employee contributions, and 3) returns on investments. Of these three funding sources, returns on fund investments represent the largest and most important source of funding for pension benefits provided by the systems. Over the past 20 years, approximately 77% of funding for SERS has come from investment earnings, 13% from employers and 10% from employees. Likewise, over the past 25 years, approximately 70% of PSERS funding has come from investment earnings, 18% from employers and 12% from employees.

SOCIALLY RESPONSIBLE INVESTING

Socially responsible investing (SRI) (also known as social investing or alternative investing) is generally defined as an investment process that considers the social, political, economic or environmental consequences of investments, both positive and negative, in addition to the traditional financial analysis that seeks to maximize potential returns on investments. Social investors can include individuals, foundations, pension funds, corporations, religious institutions, and other groups that intentionally invest assets in ways designed to achieve certain financial objectives, while also attempting to achieve certain societal goals that are deemed to be beneficial.

The concept of socially responsible or ethical investing is not new. In fact, the history of what could be described as "socially responsible" or "ethical" investing spans many centuries. Religious investors have long given careful thought to such considerations, often avoiding certain investments on moral grounds. In 19^{th} century America, many religious groups such as the Quakers and Methodists actively avoided investments related to the slave trade. Likewise, ethical investment policies of that era often sought to avoid investments in products or activities considered to be "sinful," such as investments in companies involved in the production or distribution of alcohol and tobacco.

The modern origins of socially responsible investing as currently practiced in the U.S. have been more closely linked to the social and cultural upheavals of the 1960s, as an outgrowth of the civil-rights, feminist, consumer rights, and environmentalist movements. During this period, public awareness and concern about many social, political, environmental, and economic issues began to increase.

Beginning in the 1970s, organizations such as the Interfaith Center for Corporate Responsibility (ICCR) began to employ shareholder resolutions as a means for engaging companies in dialogue on public policy issues such as labor conditions, environmental and community impacts. Corporate governance rules and the proxy-voting process were used to raise a broad set of issues directly with companies. To avoid confrontations, many public companies negotiated with shareholder activists and agreed to issue reports or alter some corporate practices.

Socially responsible investors employ several techniques in selecting and managing potential investments. These techniques include screening, shareholder advocacy and community investing.

Screening is the practice of evaluating potential investments based on qualitative, non-financial considerations in addition to traditional quantitative criteria. Both “positive” and “negative” screening techniques may be employed. In positive screening, social investors seek to acquire profitable investments that are seen as having a positive impact on society. Lists of potential investments may include enterprises that promote human rights, encourage certain environmental practices, or promote product safety. Conversely, through negative screening, social investors will actively seek to avoid or screen-out investments in entities, corporations and other enterprises whose products, activities or business practices are judged by the investor to be, in some manner, harmful to society.

Through shareholder advocacy, social investors attempt to use their influence as shareholders to affect corporate policy and activity. Shareholder advocacy involves active engagement rather than avoidance. These efforts include negotiating with companies on issues of social or environmental concern as well as filing, co-filing, and voting on shareholder resolutions. Proxy resolutions on social issues and corporate-governance issues generally aim to improve company policies and practices, encouraging the management of such companies to exercise a degree of good corporate citizenship while promoting long-term financial performance.

Community investing is defined as the process of directing capital from investors and lenders to communities, businesses and individuals that may be under-served by traditional financial services. Through local organizations, community investors provide access to credit, equity, and capital that may otherwise be unavailable.

DIVESTMENT

Divestment, also known as “divestiture” or “disinvestment,” refers to a form of economic boycott emphasizing the liquidation of certain stock holdings, and is a strategy closely associated with socially responsible investing. Proponents of divestment attempt to persuade or compel investors to divest or rid themselves of certain stock holdings. Divestment has most often been employed as a strategy to pressure governments towards policy or regime change by discouraging foreign investment in those countries. The objective of a divestment campaign is to financially punish or “de-fund” targeted companies, industries or countries by reducing access to capital, markets, goods, services or technology.

The term “divestment” first came into widespread use in the 1980s in connection with the larger multi-national economic effort to force the government of South Africa to abandon its policy of apartheid. Activists campaigned to persuade many state, county and municipal governments to rid their investment portfolios of stock in companies which had a presence in South Africa. A number of state, county and municipal governments did pass legislation ordering the sale of stocks in companies linked to South Africa. Others voluntarily adopted investment policies designed to eliminate all or a portion of existing holdings and to screen future investments. Likewise, many universities, endowments and foundations moved to divest their South African holdings. As an alternative to complete divestment, a number of institutional investors, including some large public pension plans, chose to adopt the "Sullivan Principles," named for the Reverend Leon Sullivan, an African-American clergyman who had served on the Board of Directors of General Motors Corporation. The Sullivan Principles called for corporations doing business in South Africa to adhere to strict standards of non-discrimination in hiring and promoting.

In the early 1990s, another divestment campaign was launched involving companies active in Northern Ireland. This movement featured its own counterpart to the Sullivan Principles; known as the “MacBride Principles,” named for Nobel Peace Prize winner Sean MacBride. The MacBride Principles called for American and other foreign companies to take the initiative in alleviating alleged discrimination against Roman Catholics by adopting policies resembling affirmative action.

RECENT DIVESTMENT TRENDS

Sudan

In 2003, a civil conflict erupted in the Darfur region of western Sudan. This conflict has gained worldwide attention due to the large number of people killed or rendered homeless by Sudanese government forces, militias and renegade elements supported by the government. The international community, including the U.S., has largely condemned the actions of the Sudanese government and its pro-government para-military forces against indigenous tribes in Darfur as genocide. Despite a truce negotiated between rebel forces and the government by the United Nations in 2006, and despite the presence of African peace-keeping forces, the Darfur genocide has continued largely unabated.

Sudan possesses significant oil reserves that are mostly untapped. Some U.S. and European oil companies have developed operations in Sudan and have retained exploration rights in certain areas. However, nearly all U.S. companies are banned from most business activities in Sudan, particularly those relating to the petroleum or petro-chemical industries. It is mostly companies from China, India and the Middle East that are currently active in the country and subsequently pay royalties to the government in Khartoum for access to Sudan's oil.

There has been a growing divestment movement targeting companies that do business with the government of Sudan. An organization known as the Sudan Divestment Task Force (SDTF) has spearheaded efforts in nearly every state advocating what it calls a "targeted divestment policy" intended to minimize potential negative effects on Sudanese civilians while attempting to place financial pressure on the government of Sudan. This strategy generally permits some investment in Sudan and is very different from the comprehensive divestment campaign that targeted the apartheid government of South Africa in the 1980s. The targeted divestment approach limits the scope of targeted or "scrutinized" companies to those engaged in petroleum related, mineral extraction, military supply and power production activities, and specifically excludes companies and non-governmental organizations engaged in humanitarian activities from divestment action. This approach also encourages a period of shareholder engagement with the scrutinized companies in an attempt to change corporate behavior prior to outright divestment. Finally, the targeted divestment proposals generally contain a so-called "stop loss" provision that permits funds to cease divestment if losses attributable to divestment reach a certain level, typically 50 basis points, or one-half of one percent of a fund's assets. (More detailed information on the Sudan Divestment Task Force (SDTF) and its activities can be found through the group's internet web site, www.sudandivestment.org. See the SDTF's "Sudan Company Rankings" in Appendix III of this report for a list of companies identified by the SDTF as warranting scrutiny and possible sanction.)

The limited nature of the targeted divestment approach may help explain its relative success to date, and most states that have enacted Sudan divestment legislation have closely followed this model. According to information provided by the National Council of State Legislatures and by the Sudan Divestment Task Force, as of June 2007, fourteen states had enacted legislation mandating some variation of the targeted divestment approach (California, Colorado, Connecticut, Florida, Illinois, Indiana, Iowa, Kansas, Maine, Maryland, Minnesota, New Jersey, Oregon and Vermont). Fifteen other states, including Pennsylvania, currently have Sudan divestment bills pending in their state legislatures. Statewide public pension plans in at least two states (the Kentucky Teachers Retirement Board and the Washington State Investment Board) have independently adopted policies addressing Sudan, but there is no divestment mandate. Several other states have instituted screening and reporting requirements or have adopted non-binding resolutions, but have not mandated Sudan divestment.

It should be noted that both PSERS and SERS have initiated efforts to engage companies in which the retirement systems have investments that have been identified by SDTF as "highest offenders." Not all of these companies have chosen to respond, but of those that have, several strongly dispute the SDTF's allegations. Enclosed as Appendix IV of this report are copies of PSERS and SERS correspondence and related documents.

State Sponsors of Terrorism

State sponsors of terrorism are nations designated by the federal government that provide material or financial support to non-state terrorist groups. Without state sponsors, terrorist groups would likely have greater difficulty obtaining the funds, weapons, materials, and secure areas they require to plan and conduct operations. In the wake of the terrorist attacks of September 11, 2001, a number of organizations, most notably the Center for Security Policy (www.centerforsecuritypolicy.org), have been engaged in efforts to convince policy makers to compel public pension funds and other institutional investors to divest of holdings in companies doing business with countries identified as "state sponsors of terror."[1] In its August 12, 2004, report entitled *The Terrorism Investments of the 50 States*, the Center for Security Policy charges the nation's top 100 public pension plans (which includes PSERS and SERS) with essentially underwriting international terrorism through their investment practices. (A copy of this report is included as Appendix V.)

Recently, more specific attention has been focused on the nation of Iran. Historically tense relations between the U.S. and Iran have worsened recently due to several factors, including Iran's apparent nuclear ambitions, threats made against U.S. regional allies, and most recently, allegations that Iran may be directly involved in supplying and supporting insurgent forces in Iraq. In addition, Iran has a long history of adopting policies and supporting groups generally considered hostile to the U.S. and its interests, particularly in the Middle East. Divestment efforts have been directed mainly against Iran's petroleum industry because of the importance of that industry in generating revenue for the country. The state of Florida recently enacted legislation specifically addressing divestment from companies doing business with Iran and Sudan. The state treasurers of at least three states, Connecticut, Missouri, and Vermont, have adopted policies requiring screening of investments in companies doing business with one or all of the terrorist sponsoring nations. Divestment legislation dealing with state sponsors of terrorism has been introduced in at least ten other states – California, Georgia, Kansas, New Jersey, New York, Ohio, Oklahoma, Oregon, Texas and Virginia.

Other Divestment Targets

Other recent and current divestment efforts have included actions targeting Myanmar (formerly Burma), Saudi Arabia, and Israel. Certain industries have also been the target of divestment efforts in the U.S., most notably the tobacco industry, certain sectors of the entertainment industry and the firearms industry.

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[1]For the purposes of this report, "State sponsors of terror" or "terrorist countries" refers to those nations so designated by the U.S. Secretary of State, currently Cuba, Iran, North Korea, Sudan and Syria. Libya's designation as a state sponsor of terror was rescinded by the U.S. Government on June 30, 2003. Source: 2006 Country Reports on Terrorism, Office of the Coordinator for Counter Terrorism, U.S. Dept. of State.

PART III

DIVESTMENT BILL REVIEW AND ANALYSES

The following contains a detailed discussion of three divestment bills currently before the Pennsylvania General Assembly – House Bill Number 1140, House Bill Number 1085 and House Bill Number 1087.

BILL REVIEW

Subject:	Prohibiting Investment in Certain Business Entities Doing Business in Sudan
Bill Identification:	House Bill Number 1140, Printer's Number 2190
Prime Sponsor:	Representative Babette Josephs Majority Chairwoman, House State Government Committee

Summary

House Bill Number 1140, Printer's Number 2190, would prohibit the investment of Commonwealth "public funds" in certain business entities doing business in the nation of Sudan. The bill is modeled after the targeted divestment approach advocated by the Sudan Divestment Task Force and other proponents of Sudan divestment. Advocates emphasize the targeting of companies that: 1) have business relationships directly with the Sudanese government or government-created projects; 2) impart minimal benefit to Sudan's underprivileged; and 3) have demonstrated no substantial corporate governance policy regarding the Darfur situation. The bill requires divestment only from companies that have proven unresponsive after a period of shareholder engagement. The bill also contains a "stop-loss" provision that permits the cessation of divestment activities under certain conditions and effectively limits the liability of the affected public funds. The bill also contains a provision requiring annual reimbursement from the Commonwealth General Fund for losses suffered by the affected public funds.

Discussion

The bill defines a "public fund" as a Commonwealth fund and specifically includes both the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS) in the definition of public funds subject to the divestment and ongoing restrictive investment mandates provided by the bill. The definition of public fund appears expansive and would presumably be applicable to the holdings of most other Commonwealth funds, including those held by the Department of Treasury. However, the determination of the bill's impact upon nonpension funds is beyond the scope of this analysis. Therefore, the following analysis is limited to the provisions of the bill affecting PSERS and SERS.

It would appear that because they are not considered "state" or "Commonwealth" funds, none of the Commonwealth's county or municipal pension plans would be subject to the provisions of the bill. Likewise, the Pennsylvania Municipal Retirement System (PMRS) also would appear to be exempt from the bill's provisions.

The bill requires that within 90 days of the effective date of the bill, each retirement system make its "best efforts" to identify all companies having "scrutinized business operations" in Sudan. A "scrutinized company" is defined as a company that meets any of the following criteria:

- The company has business operations 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 or indirect equity interest, consortiums or projects commissioned by the government of Sudan, or companies involved in consortiums or projects commissioned by the government of Sudan, and one of the following apply:

  – More than 10% of the company's revenues 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

  – 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.

- The company is complicit in the Darfur genocide.

- 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 it implements rigorous and verifiable safeguards to prevent use of that equipment by forces actively participating in armed conflict.

Within 90 days after the effective date of the bill, each retirement system would be required to make its "best efforts" to identify and create a list of "scrutinized companies" and update that list on a quarterly basis. Under the bill, "best efforts" include reviewing and relying on publicly available information regarding companies having business operations in Sudan, including information provided by nonprofit organizations, research firms, international organizations, and government entities; contacting asset managers that invest in companies having business operations in Sudan; and contacting other institutional investors that have divested or engaged with companies that have business operations in Sudan.

Each retirement system would be required to issue an initial report to the Pennsylvania General Assembly and the Auditor General containing the list of scrutinized companies, and to make the report publicly available within 30 days of the initial compilation of the scrutinized companies list. Subsequent reports would be required annually thereafter. In addition to the Pennsylvania General Assembly and the Auditor General, the subsequent annual reports would also be provided to the U.S. presidential special envoy to Sudan, or an appropriate designee or successor. The annual reports would also be made available to the public. The bill requires that annual reports include: 1) a summary of correspondence with companies provided written notice by the retirement systems; 2) all investments divested under the provisions of the bill; 3) all prohibited investments under the provisions of the bill; and 4) any progress made with managers of actively managed investment funds containing indirect holdings in companies having scrutinized business operations.

Following identification of the scrutinized companies, the bill requires a period of engagement with those companies. For any company on the list that has active business operations in Sudan, each retirement system would be required to send written notice informing the company of its status as a "scrutinized company," the opportunity to clarify its Sudan-related business activities and the requirement to cease active business operations or convert such operations to inactive business operations within 90 days in order to avoid becoming subject to divestment by the retirement system. Under the bill, "direct holdings" means all securities of a company held directly by a public fund or held in an account or fund of which the public fund owns all of the shares or interests.

If a company on the "scrutinized company" list ceases scrutinized business operations within 90 days following the retirement system's first engagement with the company, that company must be removed from the list and the divestment requirements of the bill would not apply. If, however, any company resumes active business operations in Sudan, each retirement system must return that company to the list of scrutinized companies and send written notice to the company, as described previously.

If any company on the list fails to take action within 90 days, the retirement system would be required to divest 50% of all direct holdings within nine months and 100% of all direct holdings in the publicly-traded company within 15 months. The retirement systems would also be prohibited from acquiring any direct holdings in publicly-traded companies on the list with active business operations in Sudan. The bill would provide an exception for any private holdings of a public fund. A limited exception is also provided under the divestment mandate and investment prohibition for any company that the U.S. government affirmatively declares to be excluded from any current or future federal sanctions regime pertaining to Sudan. A "social development company" that provides humanitarian goods or services to the people of Sudan and is not complicit in the Darfur genocide would also be excluded.

Each retirement system would also be required to submit letters to the managers of actively managed investment funds containing indirect holdings in companies that have scrutinized active business operations requesting them to consider removing such companies from the fund or create a similar actively managed fund having indirect holdings devoid of such companies. If the manager creates a similar fund, each retirement system would be required to replace all applicable investments with investments in the similar fund in an expedited time frame consistent with prudent investment standards. For the purposes of this provision, a private equity fund is deemed to be an actively managed investment fund. Indirect holdings would be exempt from mandatory divestment under the provisions of the bill. Indirect holdings means all securities of a company that are not direct holdings and are held in an account or fund in which the public fund owns shares or interests together with other investors.

Each retirement system would be required to provide written notice to any company on the list with inactive business operations in Sudan to encourage it to continue refraining from initiating active business operations in Sudan. Each retirement system would be required to continue such notice semiannually.

The bill would require the Auditor General to conduct an annual compliance audit of each retirement system to ensure compliance with the provisions of the bill. Any audit finding of noncompliance may be referred to the Attorney General for investigation.

The bill provides that the boards of the retirement systems, retirement system employees and agents of the board would not be liable for breach of fiduciary duty if the board complies in good faith with the requirements of the bill and that the board is not liable if the board makes determinations in good faith regarding the status of a company as required under the bill. Also, the bill would provide that all members, former members, officers, employees and agents of the board shall be indemnified for all claims, damages, costs and expenses, including court costs and attorneys' fees, and against all liability, losses and damages that may be incurred by reason of any decision to restrict, reduce or eliminate investments in scrutinized companies.

The bill provides that the retirement systems may cease divestment and reinvest in scrutinized companies if clear and convincing evidence shows that the value of all assets under management becomes equal to or less than 99.50%, or at least 50 basis points (.5%), of the hypothetical value of all assets under management assuming no divestment for any company had occurred. In advance of any reinvestment, each retirement system would be required to provide a written report to the General Assembly and the Auditor General, setting forth the reasons and justification for the retirement system's decision to cease divestment or begin reinvestment in otherwise scrutinized companies.

Additionally, the bill requires that at the end of each fiscal year, the retirement systems determine any investment losses that may result from compliance with the bill, and that, following certification of such losses by the Secretary of the Budget, the Commonwealth shall reimburse the retirement systems for these losses.

The provisions of the bill would expire upon the occurrence of any of the following:

- Congress or the President determines that the government of Sudan has sufficiently halted the genocide in the Darfur region for at least 12 months.

- The federal government revokes all sanctions against the government of Sudan.

- Congress or the President, through legislation or executive order, declares that mandatory divestment of the type provided under the bill interferes with U.S. foreign policy.

- Congress or the President 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.

BILL REVIEW

Subject:	Prohibiting Investment in Companies Doing Business with State Sponsors of Terrorism.
Bill Identification:	House Bill Number 1085, Printer's Number 1257, and House Bill Number 1087, Printer's Number 1259
Prime Sponsor:	Representative Josh Shapiro Deputy Speaker of the House

Summary

House Bill Number 1085, Printer's Number 1257, would amend the State Employees' Retirement Code (71 Pa. C.S. §§5101-5956) and House Bill Number 1087, Printer's Number 1259, would amend the Public School Employees' Retirement Code (24 Pa. C.S. §§8101-9102) to prohibit the investment of retirement fund assets in any entity engaged in business with a state sponsor of terrorism, and to require the Boards of both retirement systems to divest all holdings in such entities. The bills are substantively identical in terms of their effects upon the retirement systems. A third bill, House Bill Number 1086, Printer's Number 1258, would amend The Fiscal Code (72 P.S. §§1-1804). A discussion of the potential impact of the Fiscal Code amendment is beyond the scope of this analysis. Therefore, the following analysis is limited to the provisions of the two divestment bills affecting the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS).

Discussion

The bills prohibit the investment of retirement fund assets in any entity engaged in business with a "state sponsor of terror," and would require the Boards of PSERS and SERS to divest all holdings in such entities. The bills define a "state sponsor of terror" as: 1) a country identified by the Office of Foreign Assets Control in the U.S. Department of Treasury as sponsoring terrorist activities; or 2) a country designated by the U.S. Department of State as having repeatedly provided support for acts of international terrorism.

Countries determined by the Secretary of State to have repeatedly provided support for acts of international terrorism are designated pursuant to three federal statutes: 1) section 6(j) of the Export Administration Act; 2) section 40 of the Arms Export Control Act; and 3) section 620(a) of the Foreign Assistance Act. The four main categories of sanctions resulting from designation under these authorities include: 1) restrictions on U.S. foreign assistance, 2) a ban on defense exports and sales, 3) controls on exports of dual use items, and 4) miscellaneous financial and other restrictions.

Designation as a state sponsor of terrorism under the above referenced authorities also implicates other sanctions laws that penalize persons and countries engaging in trade with state sponsors of terrorism. Currently, there are five countries officially designated by the U.S. government as state sponsors of terrorism: Cuba, Iran, North Korea, Sudan and Syria.

The bills require that the Boards of PSERS and SERS cease investment in all stocks, securities or other obligations of any entity engaged in business with a state sponsor of terror. The bills define an "entity" as any corporation, partnership, limited liability company, business trust, other association, government entity (other than the United States and the states that comprise it), estate, trust, foundation or natural person.

The bills also require that, within 90 days of the bills' effective dates, the Boards of the respective retirement systems complete a comprehensive portfolio review of all current investment holdings and immediately move to divest all investments in entities identified as doing business with state sponsors of terror in a "prudent manner." The Boards would be required to conduct ongoing reviews of their investment portfolios to ensure compliance with the divestment mandate at least annually, and would be required to report the findings of these reviews to the General Assembly on an annual basis. The Boards would also be required to notify all current and future investment managers to conduct investment activities on behalf of the Boards in a manner that complies with the divestment and continuing restrictive investment mandates of the bills.

There are two exceptions to the divestment and continuing restrictive investment mandates provided by the bills: 1) a humanitarian aid exception for entities engaged in the provision of goods and services that relieve human suffering or promote health or religious, spiritual, educational, humanitarian, or journalistic activities; and 2) an exception for entities engaged in business activities in sanctioned countries pursuant to a license issued by the U.S. government or by the United Nations.

Both bills contain several drafting ambiguities that may require amendatory language to clarify. First, the bills prohibit the investment of retirement fund assets in any entity "engaged in business with" a state sponsor of terror. The phrase "engaged in business with" is not defined in the bills and could be subject to many plausible but differing interpretations. Interpreted broadly, this phrase could encompass many large and otherwise legitimate multinational corporations not directly linked to the targeted regimes but whose products or services may indirectly find their way into the markets of the sanctioned countries. The use of such an ambiguous term may greatly complicate full compliance with the bills' mandates by PSERS and SERS and may result in an interpretation of those mandates that differs significantly from the original intent of the bills' sponsors.

Second, both bills contain language requiring the Boards of the retirement systems to cease investing in sanctioned companies "on and after the effective date of this section. . . ." One interpretation of this phrase, which extends to both bills in their entirety, is that the bills may apply only to investments made by the retirement system Boards on a prospective basis following enactment, although the Commission staff believes this is not the intent of the bills' prime sponsor.

Third, both bills require the Boards to divest in a "prudent manner." Conducting investment activities in a "prudent manner" has specific meaning within the context of the retirement systems' governing statutes. The use of this language in the bills appears to create a conflict between the new divestment mandates and the fiduciary duties of prudence and loyalty to which the retirement systems' trustees are currently subject. The current "prudent person rule" in both retirement system statutes is modeled after the standard established in the Employees Retirement Income Security Act (ERISA) that governs most private pension plans. The prudent person rule was incorporated into the PSERS and SERS Codes to permit maximum flexibility in asset allocation and selection of investment vehicles so as to achieve optimal growth in investment earnings and diversification of plan assets. Under the statutes governing each system, trustees and staff have a fiduciary obligation that includes a duty of loyalty to manage the fund for the exclusive benefit of the membership, and a duty of prudence that encompasses an obligation to act in an economically rational way. A mandate to divest assets for other than rational economic reasons impairs this fiduciary responsibility, because mandatory divestment would supersede the duty to manage the fund for the exclusive benefit of the membership. Therefore, there may be no way to comply with the divestment mandate of the bills in a "prudent manner."

BILL ANALYSES

The Sudan divestment bill (House Bill Number 1140) and the terrorism divestment bills (House Bill Numbers 1085 and 1087) differ significantly in their scope and potential impact upon PSERS and SERS. The following analyses compare and contrast the major differences between the two types of divestment mandates.

Scope

- House Bill Number 1140 employs a targeted divestment approach that closely resembles the divestment model advocated by the Sudan Divestment Task Force. The bill is narrow in scope, emphasizing the targeting of companies that are engaged in specific industries and that have direct business relationships with the Sudanese government or government-created projects.

- In contrast, House Bill Numbers 1085 and 1087are quite broad in scope, allowing no discretion and few exceptions, and requiring immediate divestment of all holdings in entities engaged in business with a state sponsor of terrorism following a 90-day review by the Boards of PSERS and SERS.

Indemnification

- House Bill Number 1140 contains specific language acknowledging the fiduciary duties of the retirement systems' trustees and that indemnifies the Boards of PSERS and SERS, their staffs, agents and others against personal liability for investment losses and for any costs incurred in defending against claims of fiduciary breach resulting from enforcement of the divestment mandates contained in the bill.

- House Bill Numbers 1085 and 1087 do not appear to recognize the fiduciary duties of the retirement systems' trustees and contain no indemnification language or other protections against personal or institutional liability.

Shareholder Engagement

- House Bill Number 1140 requires an expedited period of engagement with sanctioned companies prior to divestment action. During this period, the retirement systems would attempt to influence the behavior of sanctioned companies and provide an opportunity for these companies to avoid divestment action altogether through changes in corporate behavior.

- Once companies have been identified, House Bill Numbers 1085 and 1087 permit no period of shareholder engagement and afford no opportunities for sanctioned companies to avoid divestment action.

Limitation on Investment Losses

- House Bill Number 1140 anticipates the possibility of investment losses resulting from the bill's enactment and contains a stop-loss provision that limits the losses of the retirement systems and other affected funds. Once losses reach the designated threshold, the Boards of the retirement systems would be permitted to cease divestment and, under certain conditions, reinvest in sanctioned companies.

- House Bill Numbers 1085 and 1087 contain no provision limiting the potential investment losses to PSERS and SERS resulting from enactment of the bills.

Reimbursement for Investment Losses

- In addition to the stop-loss provision described above, House Bill Number 1140 also contains a provision requiring the Commonwealth to annually reimburse the retirement systems and other affected funds for any investment losses suffered resulting from the bill.

- House Bill Numbers 1085 and 1087 contain no provisions that would require reimbursement for potential investment losses.

Indirect Holdings

- House Bill Number 1140 specifically exempts indirect holdings from divestment action, including private equity funds and other securities held in an account or fund in which the retirement systems own shares or interests together with other investors.

- The language of House Bill Numbers 1085 and 1087 is ambiguous with respect to the treatment of indirect holdings and it is unclear if such holdings would be subject to divestment action. Because the phrase "engaged in business with" is not defined in the bills, it could be subject to many plausible interpretations. Interpreted broadly, this phrase could encompass indirect holdings.

Foreign Policy

- House Bill Number 1140 contains language intended to ensure that the bill's divestment mandate does not interfere with the conduct of U.S. foreign policy.

- House Bill Numbers 1085 and 1087 contain no provisions regarding interference with U.S. foreign policy.

PART IV

POLICY CONSIDERATIONS

During the course of its research on the subject of divestment, the Commission identified a number of salient policy issues that warrant discussion and consideration. The following policy considerations apply specifically to the three divestment bills (House Bill Numbers 1140, 1085 and 1087) that are the subject of this report, but could also apply more generally to future proposed divestment mandates.

DEPARTURE FROM CURRENT PRACTICE REGARDING RESTRICTIVE INVESTMENT MANDATES

The imposition of restrictive investment mandates runs counter to the Pennsylvania General Assembly's historical practice with respect to the management of public pension funds by the Boards of PSERS and SERS. The Pennsylvania General Assembly has largely rejected investment mandates that would restrict the retirement boards' full power to invest the funds on behalf of the retirement systems' members.

In previous legislative sessions, bills were introduced in both chambers that would have required or encouraged divestment of certain investment holdings by the Boards of PSERS and SERS in conjunction with the anti-apartheid campaign in South Africa, in protest of music containing offensive or degrading lyrics, in opposition to tobacco companies and to target "state sponsors of terror." None of these legislative proposals have been enacted.[2] Nor have PSERS or SERS ever voluntarily divested of investment holdings on non-economic grounds. The Boards of both funds maintain that their fiduciary obligations preclude taking any action that is not in the best economic interest of the respective funds. PSERS did engage in limited South Africa divestment, and capped its investment in tobacco stocks; however, both actions were taken by the Board on the basis of perceived economic risk, not for social policy or political reasons.

The General Assembly has apparently regarded such legislative investment mandates to be inconsistent with not only the fiduciary duties of the retirement boards to act solely in the interest of the participants and beneficiaries, but also with the legal status of the retirement systems as trust funds. Once contributions are transferred to the retirement systems, they belong solely to the retirement systems' members and

[2] Although not a divestment mandate, both retirement Codes do contain provisions requiring that the retirement systems comply with the MacBride Principles with respect to their investments (24 Pa.C.S. § 8527 and 71 Pa.C.S. § 5940). The MacBride Principles seek to ensure that any new investments in companies doing business in Northern Ireland be with companies that adhere to non-discriminatory hiring practices. PSERS and SERS continue to comply with the MacBride Principles.

beneficiaries as required under federal tax law to maintain the tax-qualified treatment of the pension plan and to receive favorable tax treatment on the contributions and earnings thereon. While individuals are free to manage their own assets as they see fit, attempting to achieve foreign policy or other social objectives with funds held in trust violates basic trust law principles and intercedes in the fiduciary responsibilities of the retirement boards who are vested by law with the power to invest the funds solely in the interest of and for the exclusive purpose of providing benefits to participants and their beneficiaries.

FIDUCIARY DUTIES OF PENSION PLAN TRUSTEES

The trustees and staff of PSERS and SERS have a statutorily mandated fiduciary obligation that includes a duty of loyalty to manage the fund for the exclusive benefit of the membership, and a duty of prudence that encompasses an obligation to act in an economically rational way. Divesting assets for non-economic reasons is inconsistent with fiduciary responsibility. In effect, mandated divestment would supersede the duty to manage the fund for the exclusive benefit of the membership. As noted previously in this report, House Bill Number 1140 contains language intended to protect the Board and staff from personal liability for any statutorily imposed breach of fiduciary duty, but House Bill Numbers 1085 and 1087 do not.

The General Assembly has consistently recognized the fiduciary duties of the retirement boards as being paramount to other policy objectives. The General Assembly has enacted legislation encouraging the retirement boards to give consideration to investments that enhance the general welfare of the Commonwealth and its citizens, provided such investments offer quality, return and safety comparable to other investments available to the boards and are consistent with the boards' fiduciary duties (see 24 Pa C.S. § 8521(e) and 71 Pa C.S. § 5931(e)). These provisions encourage, but do not mandate, such investments and, as such, provide an appropriate balance between the retirement boards' fiduciary duties and certain policy objectives established by the General Assembly.

INVESTMENT AUTHORITY OF THE RETIREMENT BOARDS

Prior to 1974, the trustees of the retirement systems were prohibited from making significant investments in equities. Later, so-called "legal lists" of acceptable investments were established. The legal lists placed significant restrictions on the retirement boards' investment authority and impeded the boards' ability to respond to changes in financial markets. Over time, these legal lists of investments were expanded and liberalized to encompass an ever larger universe of potential investment opportunities. Finally, Act 29 of 1994 abolished the legal lists and adopted the "prudent person" investor rule.

The current "prudent person rule" is modeled after the standard codified in the Employees Retirement Income Security Act (ERISA) that governs most private pension plans, and provides for flexibility in asset allocation and selection of investment vehicles so as to achieve further growth in investment earnings and diversification of plan assets. In enacting the "prudent person rule," the General Assembly recognized the critical role investments play in the funding of benefit costs. As noted previously in this report, investment earnings constitute the largest source of revenue for both PSERS and SERS, funding nearly 80 percent of benefit costs. It is worth repeating that the less revenue generated by investments, the more contributions are required from employers and ultimately Pennsylvania taxpayers.

Enactment of any divestment bill would mark the first set of restrictions placed upon the retirement systems' investment authority since the adoption of the "prudent person rule" and could set a costly precedence for further restrictions upon the retirement systems' investment authority.

ABSENCE OF AUTHORITATIVE GUIDANCE

In the event divestment legislation is enacted, PSERS and SERS will face the daunting task of determining exactly which companies from which they are mandated to divest (recognizing that inadvertently divesting a non-mandated company could constitute a breach of fiduciary duty for which there would be no statutory protection). This is a matter of concern because no authoritative, universally agreed upon list exists. Further, because the mandate would be dependent upon the business activities of multi-national companies, any list would have to be continuously updated; a stock purchased today might have to be divested tomorrow; stock divested today might go off the list and need to be repurchased tomorrow.

Various advocacy groups, such as the Sudan Divestment Task Force (SDTF), The Center for Security Policy, and The Israel Project, generate lists, as do commercial vendors. The available lists are inconsistent in their criteria and conclusions and may not provide pension funds with a valid basis on which to act. In addition, the methodology that various groups use in developing their lists often is not fully disclosed.

For purposes of researching this issue for the Commission, PSERS and SERS subscribed to a list generated by one of the most reputable private vendors, Institutional Shareholder Services (ISS). The ISS list includes the names of more than 400 companies, many of them prominent Pennsylvania employers, that in the estimation of ISS, would meet the criteria of being "engaged in business with a state sponsor of terror" and would have to be divested.

Because its list is a commercial product, ISS prohibits subscribers from sharing the full list with third parties. However, at the request of the Commission, PSERS and SERS secured ISS' permission to disclose the names of all those companies on the list in which either PSERS or SERS currently holds stock. See Appendix VI for a complete list of the companies potentially subject to divestment.

While the Commission believes the ISS list to be credible, there are significant differences between it and other lists. For example, 13 companies on the SDTF list do not appear on the ISS list, and of the 24 companies identified by The Israel Project as being "most active" in Iran, six do not appear on the ISS list.

In addition, it should be noted that the General Assembly previously called for a study of the divestment issue. House Resolution Number 263, adopted May 7, 2003, directed the Legislative Budget & Finance Committee (LB&FC) to study the "global security risk" attendant to pension fund investments in companies with business activities in terror-sponsoring states (see Appendix VII). LB&FC attempted to undertake the study, but discovered that to complete the project, it would be necessary to purchase a list of companies and only one vendor offered a list meeting the criteria specified in the resolution. That vendor would not permit public disclosure of the company names on its list. On October 6, 2004, the LB&FC voted not to pursue the study, in part because, according to minutes of the meeting, "the LB&FC Officers were very reluctant to conduct a study where the information on which the study was based could not be publicly disclosed." [3]

House Resolution Number 36, from the current legislative session of the Pennsylvania General Assembly also would require a study of the divestment issue. If adopted, House Resolution Number 36 would establish a joint House and Senate Committee to study the effectiveness and costs associated with various state actions proposed as responses to the situation in Sudan (see Appendix VIII).

Numerous major public employee retirement systems, including PSERS and SERS, in addition to national associations, such as the National Association of State Retirement Administrators (NASRA), have repeatedly urged the U.S. government to identify companies whose actions may be undermining U.S. foreign policy, but to date, the federal government has steadfastly refused to do so. (See Appendix IX for samples of correspondence sent to federal authorities requesting guidance.)

For a short time, the Securities and Exchange Commission (SEC) maintained an internet-based web tool with a list of companies doing business in terrorist-sponsoring states. The list was widely criticized as simplistic and inaccurate. Due to the many complaints and concerns regarding the veracity and reliability of the SEC list, the web-based service was discontinued by the SEC in July 2007. (See Appendix X for a copy of a July 22, 2007, Wall Street Journal news article concerning termination of the SEC list.)

Efforts are also underway in Congress to require the federal government to produce lists of companies whose activities in Sudan and Iran meet specified criteria (see Appendix XI for the full text of these bills). As products of the federal government, such lists could overcome many of the problems attendant to the reliance on privately generated lists.

[3] LB&FC Officers Meeting Minutes, October 4, 2004, page 2.

Two pending federal bills are:

> H. R. 2347: Iran Sanctions Enabling Act of 2007, which passed the U. S. House of Representatives on July 31, 2007, authorizes State and local governments to direct divestiture from, and prevent investment in, companies with investments of $20 million or more in Iran's energy sector, companies that sell arms to the Government of Iran, and financial institutions that extend $20 million or more in credit to the Government of Iran for 45 days or more. H. R. 2347 also directs the Secretary of the Treasury to: (1) publish biannually in the Federal Register a list of each person, whether within or outside of the United States, that has an investment of more than $20 million in the energy sector in Iran; and (2) maintain on the website of the Department of the Treasury the names of the persons on such list.
>
> H. R. 180: Darfur Accountability and Divestment Act of 2007, which passed the U. S. House of Representatives on July 31, 2007, directs the Securities and Exchange Commission to require all companies trading in registered securities that conduct business operations directly or through parent or subsidiary companies in Sudan to disclose the nature of such operations; and the Government Accountability Office to investigate the existence and extent of such companies' Federal Retirement Thrift Investment Board investments. H. R. 180 also prohibits U.S. government contracts with such companies.

It is incumbent upon the federal government to provide clear, unambiguous guidance in identifying companies that warrant sanction.

SANCTIONED COMPANIES AND PENNSYLVANIA ECONOMIC DEVELOPMENT

The mission of the Pennsylvania Department of Community and Economic Development (DCED) is to foster opportunities for businesses and communities to succeed in the global economy and to promote Pennsylvania's economic development goals. DCED is actively engaged in ongoing efforts to promote exports of Pennsylvania goods and services abroad and to encourage new or expanded foreign investment and business operations in the Commonwealth. According to DCED, Pennsylvania ranks third in the northeastern U.S., and ninth out of the 50 U.S. states in the total number of foreign-owned firms operating in the Commonwealth. Foreign-owned companies are major Pennsylvania employers. Approximately 1,400 foreign companies with subsidiaries in the Commonwealth employ over 249,400 Pennsylvanians, representing 5% of Pennsylvania's private sector workforce. Approximately 38% of foreign-owned firms in Pennsylvania are in the manufacturing industry and account for nearly 12% of the Commonwealth's total manufacturing employment.

Because it is based on the SDTF model, House Bill Number 1140 is intended to target non-U.S. companies that do not have a presence in the United States. House Bill Number 1085 and House Bill Number 1087, however, would require divestment of U.S. as well as foreign companies, including both American and foreign companies that are major Pennsylvania private-sector employers. Many of these companies have been encouraged to locate, remain or expand in Pennsylvania through state grant and loan programs, and in some cases, through special legislation.

For example, Governor Rendell personally participated in the groundbreaking ceremony for Westinghouse Electric Company's new headquarters in Cranberry, Pennsylvania. To induce the company to keep its headquarters in Pennsylvania, the Commonwealth provided more than $10 million in grants and loans, according to a news release from the Governor's Office (see Appendix XII). Westinghouse is owned by Toshiba Corp., which ISS lists as having business activities in Iran. Other companies on the ISS list include General Electric, whose GE Transportation subsidiary employs more than 4,500 at its locomotive-manufacturing plant in the city of Erie and another 500 at its diesel engine manufacturing plant in Grove City. Siemens AG, which the Center for Security Policy has identified as one of the "dirty dozen" worst offending companies with respect to business dealings with state sponsors of terrorism, has a significant presence in the Commonwealth, employing approximately 10,000 people in Southeastern Pennsylvania; Kvaerner ASA, which shares corporate ownership with Aker Philadelphia Shipyard; and Banco Santander, the Spanish bank that holds a large minority interest in Reading-based Sovereign Bank.

Divestment would send a public message that all listed companies and many other leading Pennsylvania employers are believed to be supporting terrorism, should be punished economically for their activities and are not worthy of the pension funds' investment dollars. See Appendix XIII, "Pennsylvania Employment Impact," for a listing of companies appearing on the ISS divestment list that also have a Pennsylvania presence.

In addition, the Commonwealth is a customer of many of the listed Pennsylvania employers. Thus the prospect exists that the Commonwealth would continue providing cash directly to these companies in return for products and services, even as it seeks to indirectly deny the companies' access to capital by preventing pension fund investment in their stocks.

Requiring PSERS and SERS to divest from holdings in these and other companies while the Commonwealth is attempting to induce these same companies to invest, locate in, or expand their presence in Pennsylvania (and employ Pennsylvania residents) is inconsistent and contradictory public policy that may serve to undermine Pennsylvania's economic development efforts.

EFFECTIVENESS OF AD HOC DIVESTMENT INITIATIVES

The issue of the potential effectiveness of any proposed divestment mandate is central to a rational discussion of the merits of divestment as public policy. If a divestment campaign is unlikely to achieve its stated goals, the enactment of such divestment legislation would be illogical and would represent little more than a symbolic gesture rather than a rational strategy for achieving beneficial political, social or economic change.

There is a wealth of literature on all sides of the divestment issue. Although there is substantial information supporting the effectiveness of economic sanctions, there appears to be little empirical evidence to support the position that divestment has any significant economic effect on the company whose stock is sold, let alone on the country or individuals whose behavior is intended to be influenced. The economic reality is that divestment involves selling stock in the public markets, at market prices, to willing buyers. As such, it has very little impact on the company itself, much less the country or individuals whose behavior has prompted the divestment. Some companies targeted by divestment campaigns have changed business practices, but those actions appear to have been more in response to the negative publicity generated from business ties to certain countries, rather than any actual economic impact.

South Africa is frequently cited by divestment proponents as evidence of the effectiveness of divestment as a strategy for influencing the behavior of a wayward regime. However, the South Africa campaign involved not only divestment but the more direct and effective tool of a global economic boycott. Even then, the impact is questionable according to a newly published research brief by the Center for Retirement Research (CRR) at Boston College. The paper, which surveys prior academic studies, concludes that "the boycott of firms doing business in South Africa had virtually no effect on stock prices," and asserts the evidence "suggests that the financial effect of social investing on target firms is roughly zero." A copy of the CRR policy brief, "Should Public Plans Engage in Social Investing?" is enclosed with this report as Appendix XIV.

The Sudan Divestment Task Force regularly asserts that divestment is an economically effective tool. SERS has informed the Commission staff that it has asked SDTF for a copy of any study by a recognized economist or financial analyst showing that divestment has the desired effect, but to date, SERS has received no such report.

UNRESOLVED LEGAL AND CONSTITUTIONAL QUESTIONS

Divestment raises numerous legal issues that, left unresolved, could expose the funds to, at minimum, litigation costs and, at worst, adverse court rulings holding board and staff members personally liable for losses. House Bill Number 1140 contains language intended to protect the systems from the cost of litigation and their boards and staffs from individual liability. House Bill Numbers 1085 and 1087 do not. House Bill Number 1140 also attempts to avoid placing the pension systems in conflict with federal authority to conduct foreign policy. Again, House Bill Number 1085 and House Bill Number 1087 lack such protections. Moreover, notwithstanding the protections in House Bill Number 1140, if House Bill Number1085 and House Bill Number 1087 are passed, they will supersede House Bill Number 1140.

For a more detailed analysis of the outstanding legal issues, see Appendix XV, a joint memorandum authored by the Chief Counsels for PSERS and SERS, and a Congressional Research Service Report for Congress, which is attached to that memorandum. The memorandum addresses legal issues specific to PSERS and SERS, while the Congressional Research Service Report addresses broader federal constitutional issues. There also have been two recent federal court decisions concerning these issues, *National Foreign Trade Council v. Giannoulias*, striking down an Illinois divestment statute on Constitutional grounds and *Crosby v. National Foreign Trade Council*, striking down a Massachusetts statute imposing sanctions on Burma, both relying upon the issue of federal preemption in the sphere of foreign affairs. (This is the same legal principle that underlies the recent Pennsylvania Middle District Court decision regarding Hazleton's immigration ordinance.)

DIVESTMENT AND FOREIGN POLICY

The United States Constitution provides that the U.S. federal government has authority over foreign affairs and commerce with foreign countries. The federal government alone has the power to decide whether U.S. companies can do business in other countries based on national security interests. State and local retirement systems are neither positioned nor equipped to make foreign policy judgments as to which multinational companies (foreign and domestic) are operating for or against the national security interests of the United States. The federal government should provide guidance to ensure that any divestment efforts to influence foreign policy are uniform throughout the nation and consistent with the objectives of the United States.

As noted above, there are substantial disagreements among available lists as to which companies should be targeted for divestment. As also noted, certain companies strongly dispute the contention that their activities are as described by divestment advocates.

PSERS and SERS lack the resources or expertise to resolve these discrepancies among private list purveyors or between purveyors and targeted companies. Yet some action would have to be taken in a best effort to comply with whatever statute might be enacted. The pension funds, their boards, staffs, and advisors could be left vulnerable to charges they either violated the divestment statute by failing to divest companies that should have been divested, or violated their fiduciary obligation by unnecessarily divesting companies that should not have been divested – or both.

Furthermore any divestment determinations would have to be made on an ongoing basis, to stay abreast of changes in global markets and geopolitical conditions, leaving the pension funds permanently vulnerable to accusations of error.

EXCLUSION OF OTHER GOVERNMENTAL PLANS AND INSTITUTIONAL INVESTORS

All three divestment bills (House Bill Number 1140, House Bill Number 1085 and House Bill Number 1087) create a bias against PSERS and SERS, by excluding most of the Commonwealth's other governmental defined benefit and defined contribution plans from the bills' mandates. Other pension plans that appear to be excluded from the divestment mandates of the bills include the following:

- The more than 3,000 municipal defined benefit and defined contribution plans operated by local governments in the Commonwealth;
- County retirement systems;
- The Pennsylvania Municipal Retirement System (PMRS);
- The alternative retirement plans of public institutions of higher education (Teachers' Insurance Annuity Association - College Retirement Equity Fund);
- The endowments of public institutions of higher education;
- The IRC 457 Deferred Compensation Plan (administered by a third-party administrator overseen by SERS) maintained as a supplemental plan for Commonwealth employees; and
- The IRC 403(b) tax-deferred plans and other supplemental retirement plans sponsored by public school employers.

The bills would also not apply to private pension plans, other institutional investors or any private citizen with a 401(k) pension plan or mutual fund in Pennsylvania.

Mandating PSERS and SERS to divest holdings that other public funds can then purchase constitutes contradictory public pension policy.

PRECEDENCE FOR FUTURE RESTRICTIVE INVESTMENT MANDATES

The enactment of divestment legislation would create a new precedent for those advocating any number of potential future divestment or restrictive investment mandates. In the absence of specific public policy parameters established to identify and limit the appropriate nature and scope of acceptable divestment targets, both PSERS and SERS could face a potentially unending series of legislative mandates demanding divestment from holdings in companies thought to be related to the latest political or social issue of the moment. Once begun, there would simply be no logical end to potential future divestment efforts under the Commonwealth's current statutory and policy framework.

PART V

DIVESTMENT COSTS

There are numerous variables and uncertainties in determining the potential financial impact upon PSERS and SERS resulting from enactment of divestment legislation; some related to the nature of the investment markets, and others related to specific legislative proposals. It is critical to note that there is no single correct method for modeling the impact for a change in investment portfolio composition of the magnitude that would be required by enactment of a divestment mandate. Simply put, the investment markets do not behave in precise mathematical fashion. As recent history has shown, the markets can be easily influenced by major and sometimes comparatively minor changes in economic and political conditions which are not readily predictable. Specific investment strategies that were successful one year may prove inadequate in future years and be discarded in favor of new investment strategies or styles. Prudent fiduciaries must be constantly aware of changes in the markets and be prepared to commit or redeploy assets in a manner that optimizes risk adjusted returns.

For these reasons, a precise estimate of the actuarial cost impact of House Bill Numbers 1140, 1085 and 1087 cannot be made. That said, divestment would likely have certain consequences for PSERS and SERS, including direct and indirect costs. The following cost information was supplied to the Commission by PSERS and SERS and summarizes and discusses those costs by type and, where possible, by amount.

CURRENT TOTAL MARKET VALUE

- Combined, PSERS and SERS held public equity investments valued at approximately $10 billion on June 30, 2007, in companies identified as “being engaged in business with” terror sponsoring states according to the list compiled by Institutional Shareholder Services (ISS). Of the $10 billion, $8 billion represents PSERS’ market value and $2 billion represents SERS’ market value. It should be noted that these amounts do not represent actual investments by either system in the offending countries, nor are they indicative of actual support of terrorism by the companies in question. The amounts are simply what PSERS and SERS have invested in companies that appear on the ISS list.

- Narrowed to Sudan divestment, PSERS’ and SERS’ public equity holdings that would be subject to divestment under the SDTF criteria total $139 million. See Appendix XVI for a detailed listing of PSERS’ and SERS’ holdings with regard to terror sponsoring states and Sudan divestment.

- Particularly with regard to the larger list of companies "engaged in business with" terror sponsoring states, these public equity investments represent a substantial portion of each system's total public equity exposure. Of the 400-plus companies on the list obtained from ISS, each Fund holds or held investments in more than 200 companies that may be targeted for divestment. The current holdings represent approximately 10% of SERS' and 15% of PSERS' total public equity exposure.

INVESTMENT PERFORMANCE

- The equities potentially targeted for divestment have been highly profitable investments for both PSERS and SERS. For both Funds, as of June 30, 2007, the net unrealized gains earned on investments in companies identified as "being engaged in business with" terror sponsoring states and held in the portfolios on June 30, 2007, is approximately $2.9 billion ($2.36 billion for PSERS and $558 million for SERS). Realized gains earned on the sale of investments in these companies for the period January 2003 through June 2007 is approximately $2.3 billion ($1.75 billion for PSERS, $572 million for SERS). The total investment gains for both Funds are therefore approximately $5.2 billion.

- Many of the companies on the ISS list have been particularly strong performers. Each Fund's median unrealized gain for those companies was 25% and each Fund had companies on the divestment list with unrealized gains greater than 400%.

- In another measure of performance, it should be noted that many of the targeted companies have outperformed the broad-based MSCI EAFE index. As a consequence, excluding these companies from an active manager's investable universe could negatively impact investment returns.

TABLE I

12 Month Return of Targeted Companies vs. MSCI EAFE

	Company Name		Performance	Performance vs MSCI EAFE
1	Saipem	Italy	110.9%	**+ 83.4%**
2	China Petroleum & Chemical Corp.	China	95.0%	**+ 67.5%**
3	Alstom	France	84.4%	**+ 56.9%**
4	ABB Ltd.	Switzerland	79.3%	**+ 51.8%**
5	Alcan Inc.	Canada	74.9%	**+ 47.4%**
6	Siemens AG	Germany	66.9%	**+ 39.4%**
7	Bayer AG	Germany	66.9%	**+ 39.4%**
8	Cummins, Inc.	US	66.8%	**+ 39.3%**
9	BASF AG	Germany	61.6%	**+ 34.1%**
10	Rio Tinto plc	UK	49.9%	**+ 22.4%**
11	Technip (Formerly Technip-Coflexip)	France	49.3%	**+ 21.8%**
12	E.ON AG (formerly Veba Ag)	Germany	49.0%	**+ 21.5%**
13	Rolls-Royce Group plc	UK	43.0%	**+ 15.5%**
14	Petrochina Company Limited	China	41.9%	**+ 14.4%**
15	Merck & Co., Inc.	US	40.9%	**+ 13.4%**
16	Unilever N.V.	Netherlands	40.4%	**+ 12.9%**
17	Repsol Ypf SA (Formerly Repsol, S.A.)	Spain	40.4%	**+ 12.9%**
18	Chevron Corporation	US	39.2%	**+ 11.7%**
19	Exxon Mobil Corp.	US	38.9%	**+ 11.4%**
20	Lockheed Martin Corp.	US	33.1%	**+ 5.6%**
21	Schlumberger Ltd.	Netherlands	32.7%	**+ 5.2%**
22	Wyeth	US	31.4%	**+ 3.9%**
23	Banco Santander Central Hispano	Spain	30.3%	**+ 2.8%**
24	Toshiba Corp.	Japan	30.1%	**+ 2.6%**
		MSCI EAFE	**27.5%**	

INCREASED RISK AND VOLATILITY

- Requiring PSERS and SERS to exclude significant portions of the investable universe could expose the funds to greater risk and volatility. The risk and volatility of investments are measured as "tracking error" – the greater the tracking error, the greater the risk and volatility.

- State Street Global Advisors has estimated that if all companies with ties to Iran were removed from the MSCI EAFE index and replaced with similar performing companies, it would introduce a tracking error of up to 200 basis points (2.0%). It can be assumed that the adverse effect would be even greater if all companies with business ties to any "state sponsor of terror" nation, not just Iran, were excluded. By comparison, the tracking error on a typical index is between five and ten basis points (.05% to 0.1%).

EFFECT OF DIVESTMENT ON INDIRECT INVESTMENTS

- Of particular concern with regard to House Bill Number 1085 and House Bill Number 1087, the bills fail to exempt from the divestment requirement indirect holdings, such as private equity funds and commingled funds. (House Bill Number 1140 explicitly exempts indirect holdings and so does not present this concern.)

- Private equity is a significant part of each Fund's portfolios. Over the most recent 10-year period, private equity has produced 18.1% annual compound returns for SERS, and 15.3% for PSERS. Approximately 10.2% of SERS' and 6.3% of PSERS' investments at June 30, 2007, were allocated to private equity.

- Top private equity funds will not agree to "terror free" restrictions, and private equity funds are illiquid. These are multi-year investments to which all parties make contractual commitments. Thus PSERS and SERS cannot readily sell their interests if a fund invests in a prohibited company. As a result, the restrictions on investments contained in House Bill Number 1085 and House Bill Number 1087 would effectively eliminate access to top-performing private equity funds. Lower-ranked private equity funds produce far lower earnings and are not attractive investments for PSERS and SERS.

- Depriving PSERS and SERS of access to desirable private equity investments would eliminate a top-performing asset class. Funds currently allocated to private equity would have to be reallocated elsewhere and, given the strong performance private equity funds have achieved, it is unlikely the reallocated portfolios could be expected to achieve comparable total returns (absent an unacceptable increase in risk).

- Statutory restrictions on investments may also require PSERS and SERS to liquidate up to $7.8 billion of investments in commingled funds. Commingled funds provide a cost-efficient means of investing in both domestic and global markets. Similar to mutual funds, commingled funds deploy commingled assets from multiple investors across an array of investments (for instance, a commingled fund may invest in all stocks in the EAFE index). "Terror free" commingled funds are available, but at a far higher price, and with higher risk and volatility.

IMPACT ON ASSUMED INVESTMENT RETURNS AND EMPLOYER CONTRIBUTION REQUIREMENTS

- If investment opportunities available to PSERS and SERS are statutorily restricted, both may be required to lower their actuarially assumed rates of investment return. Any reduction in the actuarial rate of investment return would immediately increase the actuarially calculated employer (taxpayer) contribution rates.

- The general investment consultants for both PSERS and SERS have advised that if private equity returns were eliminated, it would be necessary to lower the assumed rate of investment return (unless the funds were willing to accept materially increased risk, which the respective Boards would be unwilling to do).

- For SERS, the current 8.5% assumed rate of return would have to be reduced to 8.0%, according to SERS' consultant, Rocaton Investment Advisors, LLC. Wilshire Associates, investment consultant to PSERS, projects a reduction from 8.5% to 8.0% in PSERS' assumed rate of return. Both reductions in assumed rate are based solely on the exclusion of private equity from the respective portfolios. Other restrictions could necessitate further reductions.

- Any reduction in the assumed rate of return would result in a seven times greater increase in employer contribution rates. (That is, decreasing assumed investment returns by 1% would increase PSERS' and SERS' employer contribution rates by an additional 7.0% of payroll.) See Tables II and III below.

TABLE II

State Employees' Retirement System
Potential Impact of Divestment on Employer Contribution Rate

A 1.0% decrease in assumed investment could increase the employer contribution rate by 7.0% or $396 million.

Decrease in Assumed Returns	Estimated Increase in Employer Contribution Rate	Estimated Increase in Annual Employer Contributions
-0.1%	0.7%	$ 39,634,000
-0.2%	1.4%	$ 79,268,000
-0.3%	2.1%	$ 118,902,000
-0.4%	2.8%	$ 158,536,000
-0.5%	3.5%	$ 198,170,000
-0.6%	4.2%	$ 237,804,000
-0.7%	4.9%	$ 277,438,000
-0.8%	5.6%	$ 317,072,000
-0.9%	6.3%	$ 356,706,000
-1.0%	7.0%	$ 396,340,000

SERS calculation by Hay Group, based on a Commonwealth payroll of $5.67 billion

TABLE III

Public School Employees' Retirement System
Potential Impact of Divestment on Employer Contribution Rate

A 1.0% decrease in assumed investment could increase the employer contribution rate by 6.9% or $914 million.

Decrease in Assumed Returns	Estimated Increase in Employer Contribution Rate	Estimated Increase in Annual Employer Contributions
-0.1%	0.7%	$ 89,000,000
-0.2%	1.4%	$ 179,000,000
-0.3%	2.0%	$ 268,000,000
-0.4%	2.7%	$ 358,000,000
-0.5%	3.4%	$ 449,000,000
-0.6%	4.1%	$ 541,000,000
-0.7%	4.8%	$ 634,000,000
-0.8%	5.5%	$ 727,000,000
-0.9%	6.2%	$ 820,000,000
-1.0%	6.9%	$ 914,000,000

PSERS calculation by Buck Consultants, based on a Commonwealth payroll of $13.22 billion

- In the case of PSERS, the burden of any increase in employer contributions would fall in significant part on the local school districts, which pay approximately half the employer cost. The following table illustrates the potential effect on five sample school districts.

TABLE IV

Potential Impact of Divestiture on Local School Districts for FY 2006/2007: Illustration of Impact of Reduction of PSERS' Investment Earnings Assumption

		Estimated Employer Obligation after an investment reduction of:					
	2006/2007 Estimated Employer Obligation *	10 basis point	20 basis point	40 basis point	60 basis point	80 basis point	100 basis point
Employer Contribution Rate	*6.46%*	*7.13%*	*7.81%*	*9.17%*	*10.55%*	*11.96%*	*13.37%*
Philadelphia School District	30,050,000	33,160,000	36,330,000	42,650,000	49,070,000	55,630,000	62,190,000
Abington School District	1,950,000	2,150,000	2,350,000	2,760,000	3,180,000	3,610,000	4,030,000
Scranton School District	1,530,000	1,690,000	1,850,000	2,180,000	2,500,000	2,840,000	3,180,000
Cumberland Valley School District	1,250,000	1,380,000	1,510,000	1,770,000	2,040,000	2,310,000	2,580,000
North Allegheny School District	1,880,000	2,080,000	2,280,000	2,670,000	3,080,000	3,490,000	3,900,000

*Estimated employer obligation after reimbursement by Commonwealth of Pennsylvania

Disclaimer: The above rates and costs do not include any additional increases from benefit enhancements, cost-of-living adjustments, or additional investment market losses.

CUMULATIVE EFFECT OF REDUCED EARNINGS

- Given the size of the two funds and the salutary effects of compounding, any reduction in investment earnings would grow even more significant over time.

- In addition to the potential reduction arising from lost access to private equity, it must be assumed that any significant reduction in the investable universe of public equities will result in reduced earnings. That certainly was the case with South Africa divestment. Wilshire Associates provided PSERS with an analysis comparing the performance of the S&P 500 and the S&P 500 excluding South Africa over the course of the anti-apartheid campaign from 1986-1996. As shown in the following table, the Wilshire analysis reveals that the divested South Africa free portfolio underperformed the full S&P 500 by an annualized average of 63 basis points (0.63%).

TABLE V

S&P 500 Index Comparison with the S&P South Africa Free Index

	Calendar Year Returns		Variance		Annualized Returns *Periods Ending Sept 30, 1995*		Variance
	S&P SAFE	S&P 500	*S&P 500 minus S&P 500 SAFE*		S&P SAFE	S&P 500	*S&P 500 minus S&P 500 SAFE*
1995 YTD	29.74	29.78	0.04	**Qtr**	7.96	7.95	(0.01)
1994	(0.69)	1.32	2.01	**YTD**	29.74	29.78	0.04
1993	10.81	10.08	(0.73)	**1 Year**	28.68	29.76	1.08
1992	10.17	7.65	(2.52)	**3 Years**	14.72	14.99	0.28
1991	30.04	30.47	0.42	**5 Years**	17.35	17.24	(0.11)
1990	(5.04)	(3.12)	1.92	**Since 12/85**	13.98	14.61	0.63
				0.1025641			
1989	30.71	31.69	0.98				
1988	16.32	16.61	0.29				
1987	2.63	5.25	2.63				
1986	18.18	18.68	0.50				

Source: Wilshire Associates

- In the case of PSERS and SERS, if actual annual earnings were reduced from 8.5% to 8.0% (50 basis points or 0.5%), the effect over a 10-year period would be to reduce PSERS' investment earnings by approximately $6.9 billion and reduce SERS' investment earnings by approximately $3.5 billion, for a total combined reduction in

PSERS' and SERS' investment earnings of $10.4 billion. The following tables detail the projected financial impact for each divestment proposal.

TABLE VI

State Employees' Retirement System
Financial Impact of Divesting from Companies
"Engaged in Business with" Terror Sponsoring States (HB 1085)

Total Market Value of Public Equity Investments

At June 30, 2007

Total Market Value	**$ 1,913,076,759**

Unrealized Gains Earned on Investments

At June 30, 2007

Unrealized Gains	**$ 557,582,933**

Realized Gains Earned on the Sale of Investments

(For the Period January 2003 to June 2007)

Realized Gains	**$ 571,610,053**

There were over 20,000 transactions for calculating realized gains and details are available upon request.

Total Investment Gains

Unrealized Gains	$ 557,582,933
Realized Gains	$ 571,610,053
Total Investment Gains	**$ 1,129,192,985**

Transaction Costs

Total Market Value	$ 1,913,076,759
(38 basis points)	0.38%
Cost to Divest and Reinvest	**$ 7,269,692**

Administrative Costs (annual)

Monitoring requirements and software	**$ 100,000**

TABLE VII

State Employees' Retirement System
Financial Impact of Divesting from Companies on the Sudan Divestment Taskforce List (HB 1140)

Total Market Value of Public Equity Investments		
At June 22, 2007		
Highest Offenders	$	48,146,994
Ongoing Engagement	$	96,863,148
	$	**145,010,141**

Unrealized Gains Earned on Investments		
At June 22, 2007		
Highest Offenders	$	14,124,351
Ongoing Engagement	$	42,454,693
	$	**56,579,044**

Transaction Costs (Highest Offenders)		
Total Market Value	$	48,146,994
(38 basis points)	$	0.38%
Cost to Divest and Reinvest	**$**	**182,959**

Administrative Costs (annual)		
Monitoring requirements and software	**$**	**50,000**

TABLE VIII

Public School Employees' Retirement System
Financial Impact of Divesting from Companies
"Engaged in Business with" Terror Sponsoring States (HB 1087)

Total Market Value of Public Equity Investments

At June 30, 2007

Total Market Value	**$**	**7,649,818,821**

Unrealized Gains Earned on Investments

At June 30, 2007

Unrealized Gains	**$**	**2,354,542,306**

Realized Gains Earned on the Sale of Investments

(For the Period January 2003 to June 2007)

Realized Gains	**$**	**1,745,915,242**

There were over 20,000 transactions for calculating realized gains and details are available upon request.

Total Investment Gains

Unrealized Gains	$	2,354,542,306
Realized Gains	$	1,745,915,242
Total Investment Gains	**$**	**4,100,457,548**

Transaction Costs

Total Market Value	$	7,649,818,821
(70 basis points)		0.70%
Cost to Divest and Reinvest	**$**	**53,548,732**

Administrative Costs (annual)

Monitoring requirements and software	**$**	**100,000**

TABLE IX

Public School Employees' Retirement System
Financial Impact of Divesting from Companies
on the Sudan Divestment Taskforce List (HB 1140)

Total Market Value of Public Equity Investments		
At June 30, 2007		
Highest Offenders	$	91,314,296
Ongoing Engagement	$	362,031,987
	$	**453,346,283**

Unrealized Gains Earned on Investments		
At June 30, 2007		
Highest Offenders	$	29,825,559
Ongoing Engagement	$	168,777,040
	$	**198,602,599**

Transaction Costs (Highest Offenders)		
Total Market Value	$	91,314,296
(91 basis points)		0.91%
Cost to Divest and Reinvest	**$**	**830,960**

Administrative Costs (annual)		
Monitoring requirements and software	**$**	**100,000**

TRANSACTION, ADMINISTRATIVE AND MONITORING COSTS

- In addition to any losses incurred as a result of lost investment opportunities, both systems would incur significant transaction costs to dispose of the prohibited investments and replace them in the portfolios. In addition, costs would be incurred to ensure ongoing compliance with whatever divestment statute is passed.

- If House Bill Number 1085 and House Bill Number 1087 were to be enacted in their present form, the total additional cost for both Funds to divest and reinvest their $10 billion elsewhere is estimated at $61 million: $54 million for PSERS and $7 million for SERS. If House Bill Number 1140 were to be enacted in its present form, the total additional cost to both Funds to divest and reinvest their $139 million of holdings in companies categorized as the highest offenders is estimated at $1 million: $831,000 for PSERS and $183,000 for SERS.

- The total additional administrative and monitoring cost is conservatively estimated at $100,000 annually per system under a “terror sponsoring state” divestment bill.

PART VI

APPENDICES TO

S P E C I A L   R E P O R T:

DIVESTMENT AND PENNSYLVANIA'S PUBLIC EMPLOYEE RETIREMENT SYSTEMS

APPENDIX I

THE DIVESTMENT BILLS

House Bill Number 1140
House Bill Number 1085
House Bill Number 1087

PRIOR PRINTER'S NOS. 1390, 2018 PRINTER'S NO. 2190

THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE BILL

No. 1140 Session of 2007

INTRODUCED BY JOSEPHS, LENTZ, DeWEESE, BAKER, BARRAR, BASTIAN, BELFANTI, BENNINGHOFF, BENNINGTON, BEYER, BIANCUCCI, BISHOP, BLACKWELL, BOBACK, BRENNAN, BUXTON, CALTAGIRONE, CARROLL, CLYMER, COHEN, CONKLIN, COSTA, CRUZ, CURRY, DALLY, DeLUCA, DePASQUALE, DERMODY, DiGIROLAMO, EACHUS, FABRIZIO, FRANKEL, FREEMAN, GABIG, GEORGE, GIBBONS, GOODMAN, GRELL, GRUCELA, HANNA, HARPER, HELM, HORNAMAN, JAMES, W. KELLER, KENNEY, KING, KIRKLAND, KORTZ, KULA, LEACH, LEVDANSKY, MANDERINO, MANN, MARSHALL, McCALL, McGEEHAN, McILVAINE SMITH, MILNE, MOUL, MUNDY, MURT, MYERS, D. O'BRIEN, M. O'BRIEN, OLIVER, PALLONE, PARKER, PAYTON, PETRARCA, PETRI, PETRONE, PRESTON, QUINN, RAMALEY, RAPP, READSHAW, REICHLEY, ROEBUCK, ROHRER, RUBLEY, SABATINA, SAMUELSON, SANTONI, SAYLOR, SCAVELLO, SEIP, SHAPIRO, SIPTROTH, M. SMITH, SOLOBAY, STABACK, STAIRS, STURLA, SURRA, TANGRETTI, J. TAYLOR, R. TAYLOR, THOMAS, VITALI, WAGNER, WALKO, WATERS, WATSON, WHEATLEY, J. WHITE, WILLIAMS, WOJNAROSKI, YOUNGBLOOD, NAILOR, TRUE, SCHRODER, PASHINSKI, HENNESSEY, VULAKOVICH AND K. SMITH, APRIL 23, 2007

AS AMENDED ON SECOND CONSIDERATION, HOUSE OF REPRESENTATIVES, JULY 2, 2007

AN ACT

Prohibiting the investment of State funds in certain private business entities doing business in Sudan; and providing indemnification to certain persons.

The General Assembly of the Commonwealth of Pennsylvania hereby enacts as follows:

Section 1. Short title.

This act shall be known and may be cited as the Sudan Divestment Act.

Section 2. Declaration of policy.

The General Assembly finds and declares as follows:

(1) On July 23, 2004, the United States Congress declared that "the atrocities unfolding in Darfur, Sudan, are genocide."

(2) On September 9, 2004, Secretary of State Colin L. Powell told the United States Senate Foreign Relations Committee that "genocide has occurred and may still be occurring in Darfur" and "the Government of Sudan and the Janjaweed bear responsibility."

(3) On September 21, 2004, addressing the United Nations General Assembly, President George W. Bush affirmed the Secretary of State's finding and stated, "At this hour, the world is witnessing terrible suffering and horrible crimes in the Darfur region of Sudan, crimes my government has concluded are genocide."

(4) On December 7, 2004, the United States Congress noted that the genocidal policy in Darfur has led to reports of "systematic rape of thousands of women and girls, the abduction of women and children, and the destruction of hundreds of ethnically African villages, including the poisoning of their wells and the plunder of their crops and cattle upon which the people of such villages sustain themselves."

(5) Also on December 7, 2004, Congress found that "the Government of Sudan has restricted access by humanitarian and human rights workers to the Darfur area through intimidation by military and security forces, and through bureaucratic and administrative obstruction, in an attempt to inflict the most devastating harm on those individuals displaced from their villages and homes without any means of sustenance or shelter."

(6) On September 25, 2006, Congress reaffirmed that "the genocide unfolding in the Darfur region of Sudan is characterized by acts of terrorism and atrocities directed against civilians, including mass murder, rape, and sexual violence committed by the Janjaweed and associated militias with the complicity and support of the National Congress Party-led faction of the Government of Sudan."

(7) On September 26, 2006, the United States House of Representatives stated that "an estimated 300,000 to 400,000 people have been killed by the Government of Sudan and its Janjaweed allies since the Darfur crisis began in 2003, more than 2,000,000 people have been displaced from their homes, and more than 250,000 people from Darfur remain in refugee camps in Chad."

(8) The Darfur crisis represents the first time the United States Government has labeled ongoing atrocities a genocide.

(9) The United States Government has imposed sanctions against the Government of Sudan since 1997. These sanctions are monitored through the United States Treasury Department's Office of Foreign Assets Control (OFAC).

(10) According to a former chair of the United States Securities and Exchange Commission, "the fact that a foreign company is doing material business with a country, government, or entity on OFAC's sanctions list is, in the SEC staff's view, substantially likely to be significant to the reasonable investor's decision about whether to invest in that company."

(11) Since 1993, the United States Secretary of State has determined that Sudan is a country the government of

which has repeatedly provided support for acts of international terrorism, thereby incurring restrictions of United States assistance, defense exports and sales, and financial and other transactions with the Government of Sudan.

(12) A 2006 United States House of Representatives report states that "a company's association with sponsors of terrorism and human rights abuses, no matter how large or small, can have a materially adverse result on a public company's operations, financial condition, earnings, and stock prices, all of which can negatively affect the value of an investment."

(13) In response to the financial risk posed by investments in companies doing business with a terrorist-sponsoring state, the Securities and Exchange Commission established its Office of Global Security Risk to provide for enhanced disclosure of material information regarding such companies.

(14) The current Sudan divestment movement encompasses nearly 100 universities, cities, states and private pension plans.

(15) The following are to be commended:

(i) The City of Philadelphia, which in September 2006 divested its funds from companies doing business in Sudan, the largest city in the United States to do so to date.

(ii) The City of Pittsburgh, which in March 2007 divested its funds from companies doing business in Sudan.

(iii) The over half dozen Pennsylvania colleges and universities which have already divested from companies doing business in Sudan or are considering doing so.

(16) Companies facing such widespread divestment present further material risk to remaining investors.

(17) It is a fundamental responsibility of the Commonwealth to decide where, how, and by whom financial resources in its control should be invested, taking into account numerous pertinent factors.

(18) It is the prerogative and desire of the Commonwealth, in respect to investment resources in its control and to the extent reasonable, with due consideration for, among other things, return on investment, on behalf of itself and its investment beneficiaries, not to participate in an ownership or capital-providing capacity with entities that provide significant practical support for genocide, including certain non-United States companies presently doing business in Sudan.

(19) It is the judgment of the General Assembly that this act should remain in effect only insofar as it continues to be consistent with, and does not unduly interfere with, the foreign policy of the United States as determined by the United States Government.

(20) It is the judgment of the General Assembly that mandatory divestment of public funds from certain companies is a measure that should be employed sparingly and judiciously. A congressional and presidential declaration of genocide satisfies this high threshold.

Section 3. Definitions.

The following words and phrases when used in this act shall have the meanings given to them in this section unless the context clearly indicates otherwise:

"Active business operations." All business operations that are not inactive business operations.

"Business operations." Engaging in commerce in any form in Sudan, including by acquiring, developing, maintaining, owning, selling, possessing, leasing or operating equipment, facilities, personnel, products, services, personal property, real property or any other apparatus of business or commerce.

"Company." A sole proprietorship, organization, association, corporation, partnership, joint venture, limited partnership, limited liability partnership, limited liability company or other entity or business association, including a wholly owned subsidiary, majority-owned subsidiary, parent company or affiliate of such entities or business associations, that exists for profit-making purposes.

"Complicit." Taking actions during any preceding 20-month period that have directly supported or promoted the genocidal campaign in Darfur, including, but not limited to:

(1) preventing members of Darfur's victimized population from communicating with each other;

(2) encouraging Sudanese citizens to speak out against an internationally approved security force for Darfur;

(3) actively working to deny, cover-up or alter the record on human rights abuses in Darfur; or

(4) other similar actions.

"Direct holdings in a company." All securities of that company held directly by the public fund in an account or fund in which the public fund owns all shares or interests.

"Government of Sudan." The government in Khartoum, Sudan, which is led by the National Congress Party, formerly known as the National Islamic Front, or any successor government formed on or after October 13, 2006, including the coalition National Unity Government agreed upon in the Comprehensive Peace Agreement for Sudan. The term does not include the regional government of southern Sudan.

"Inactive business operations." The mere continued holding or renewal of rights to property previously operated for the purpose of generating revenues but not presently deployed for such purpose.

"Indirect holdings in a company." All securities of that company held in an account or fund, such as a mutual fund, managed by one or more persons not employed by a public fund, in which the public fund owns shares or interests together with other investors not subject to the provisions of this act.

"Marginalized populations of Sudan." Includes, but are not limited to:

(1) the portion of the population in the Darfur region that has been genocidally victimized;

(2) the portion of the population of southern Sudan victimized by Sudan's North-South civil war;

(3) the Beja, Rashidiya and other similarly underserved groups of eastern Sudan;

(4) the Nubian and other similarly underserved groups in Sudan's Abyei, Southern Blue Nile and Nuba Mountain regions; and

(5) the Amri, Hamadab, Manasir and other similarly underserved groups of northern Sudan.

"Military equipment." Weapons, arms, military supplies and equipment that readily may be used for military purposes, including radar systems or military-grade transport vehicles or supplies or services sold or provided directly or indirectly to any force actively participating in armed conflict in Sudan.

"Mineral extraction activities." Includes exploring, extracting, processing, transporting or wholesale selling or trading of elemental minerals or associated metal alloys or oxides (ore), including gold, copper, chromium, chromite, diamonds, iron, iron ore, silver, tungsten, uranium and zinc, as well as facilitating such activities, including by providing supplies or services in support of such activities.

"Oil-related activities." Includes, but are not limited to:

(1) owning rights to oil blocks;

(2) exporting, extracting, producing, refining, processing, exploring for, transporting, selling or trading oil;

(3) constructing, maintaining or operating a pipeline, refinery or other oil-field infrastructure; or

(4) facilitating such activities, including by providing supplies or services in support of such activities, except that the mere retail sale of gasoline and related consumer products are not oil-related activities.

"Power production activities." Any business operation that involves a project commissioned by the National Electricity Corporation of Sudan or another similar Government of Sudan entity whose purpose is to facilitate power generation and delivery, including, but not limited to, establishing power-generating plants or hydroelectric dams, selling or installing components for the project, and providing service contracts related to the installation or maintenance of the project, as well as facilitating such activities, including by providing supplies or services in support of such activities.

"Public fund." A Commonwealth fund, including the State Employees' Retirement Fund and the Public School Employees' Retirement Fund. The term includes the State entity responsible for administering the fund.

"Scrutinized company." A company that:

(1) engages in scrutinized business operations described under section 4; or

(2) is complicit in the Darfur genocide.

"Social development company." A company whose primary purpose in 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 that are unrelated to oil-related activities, mineral extraction activities or power production 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 humanitarian efforts in conjunction with an international organization, the Government of Sudan, the regional Government of Southern Sudan or a nonprofit entity and evaluated and certified by an independent third party to be substantial in 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 genocidally victimized population in Darfur.

Section 4. Scrutinized business operations.

(a) General rule.--A company engages in scrutinized business operations if:

(1) the company has business operations that involve contracts with or providing supplies or services to the Government of Sudan, a company in which the Government of Sudan has any direct or indirect equity share, a Government of Sudan-commissioned consortium or project or a company involved in a Government of Sudan-commissioned consortium or project and:

(i) more than 10% of the company's revenues 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; or

(ii) 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; or

(2) the company supplies military equipment within Sudan, unless:

(i) the company clearly shows that the military equipment cannot be used to facilitate offensive military actions in Sudan; or

(ii) the company implements rigorous and verifiable safeguards to prevent use of that equipment by forces actively participating in armed conflict, including:

(A) using post-sale tracking of such equipment by the company;

(B) 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

(C) selling such equipment solely to the regional government of southern Sudan or any internationally recognized peacekeeping force or humanitarian organization.

(b) Social development company.--Notwithstanding any other provision of this act, a social development company that is not complicit in the Darfur genocide may not be considered a scrutinized company.

Section 5. Identification of companies.

(a) Identification.--Within 90 days following the effective date of this act, the public fund shall make its best efforts to identify all scrutinized companies in which the public fund has direct or indirect holdings or could possibly have such holdings in the future. Efforts shall include, as appropriate, any of the following:

(1) reviewing and relying, as appropriate in the public fund's judgment, on publicly available information regarding companies with business operations in Sudan, including information provided by nonprofit organizations, research firms, international organizations and government entities;

(2) contacting asset managers contracted by the public fund that invest in companies with business operations in

Sudan; or

(3) contacting other institutional investors that have divested from or engaged with companies that have business operations in Sudan.

(b) List.--By the first meeting of the public fund following the 90-day period described in subsection (a), the public fund shall assemble all scrutinized companies identified into a scrutinized companies list.

(c) Update.--The public fund shall update the scrutinized companies list on a quarterly basis based on evolving information from, among other sources, those listed in subsection (a).

Section 6. Required actions.

(a) Engagement.--The public fund shall adhere to the following procedure for companies on the scrutinized companies list:

(1) The public fund shall immediately determine the companies on the scrutinized companies list in which the public fund owns direct or indirect holdings.

(2) For each company identified in paragraph (1) with only inactive business operations, the public fund shall send a written notice informing the company of this act and encouraging it to continue to refrain from initiating active business operations in Sudan until it is able to avoid scrutinized business operations. The public fund shall continue such correspondence on a semiannual basis.

(3) For each company newly identified in paragraph (1) with active business operations, the public fund shall send a written notice informing the company of its scrutinized company status and that it may become subject to divestment

by the public fund. The notice shall offer the company the opportunity to clarify its Sudan-related activities and shall encourage the company, within 90 days, to either cease its scrutinized business operations or convert the operations to inactive business operations in order to avoid qualifying for divestment by the public fund.

(4) If, within 90 days following the public fund's first engagement with a company pursuant to paragraph (3), that company ceases scrutinized business operations, the company shall be removed from the scrutinized companies list and the provisions of this section shall cease to apply to it unless it resumes scrutinized business operations. If, within 90 days following the public fund's first engagement, the company converts its scrutinized active business operations to inactive business operations, the company shall be subject to all provisions relating thereto.

(b) Divestment.--The public fund shall adhere to the following procedure for companies on the scrutinized companies list:

(1) If, after 90 days following the public fund's first engagement with a company pursuant to subsection (a)(3), the company continues to have scrutinized active business operations, and only while the company continues to have scrutinized active business operations, the public fund shall sell, redeem, divest or withdraw all publicly traded securities of the company, except as provided, according to the following schedule:

(i) At least 50% of such assets shall be removed from the public fund's assets under management by nine months after the company's most recent appearance on the scrutinized companies list.

(ii) 100% of such assets shall be removed from the public fund's assets under management within 15 months after the company's most recent appearance on the scrutinized companies list.

(2) If a company that ceased scrutinized active business operations following engagement pursuant to subsection (a)(3) resumes such operations, paragraph (1) shall immediately apply, and the public fund shall send a written notice to the company. The company shall also be immediately reintroduced onto the scrutinized companies list.

(c) Prohibition.--At no time shall the public fund acquire securities of companies on the scrutinized companies list that have active business operations, except as provided in subsection (d).

(d) Exemption.--No company which the United States Government affirmatively declares to be excluded from its present or any future Federal sanctions regime relating to Sudan shall be subject to divestment or investment prohibition pursuant to subsections (b) and (c).

(e) Excluded securities.--Notwithstanding any provision of this act to the contrary, subsections (b) and (c) shall not apply to indirect holdings in actively managed investment funds. The public fund shall, however, submit letters to the managers of such investment funds containing companies with scrutinized active business operations requesting that they consider removing such companies from the fund or create a similar actively managed fund with indirect holdings devoid of such companies. If the manager creates a similar fund, the public fund shall replace all applicable investments with investments in the similar fund in an expedited time frame consistent with prudent investing standards. For the purposes of this section, "private equity" funds shall be deemed to be actively managed investment funds.

Section 7. Reporting.

(a) Initial report.--The public fund shall file a publicly available report to the General Assembly and the Auditor General that includes the scrutinized companies list within 30 days after the list is created.

(b) Subsequent reports.--Annually thereafter, the public fund shall file a publicly available report to the General Assembly and the Auditor General and send a copy of that report to the United States Presidential Special Envoy to Sudan, or an appropriate designee or successor, that includes:

(1) A summary of correspondence with companies engaged by the public fund under section 6(a)(2) and (3).

(2) All investments sold, redeemed, divested or withdrawn in compliance with section 6(b).

(3) All prohibited investments under section 6(c).

(4) Any progress made under section 6(e).

Section 8. Expiration.

This act shall expire upon the occurrence of any of the following:

(1) The Congress or President of the United States declares that the Darfur genocide has been halted for at least 12 months.

(2) The United States revokes all sanctions imposed against the Government of Sudan.

(3) The Congress or President 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.

(4) The Congress or President 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.

Section 9. Other legal obligations.

With respect to actions taken in compliance with this act, including ANY FIDUCIARY OR PRUDENT INVESTING RESPONSIBILITIES AS DESCRIBED IN 24 PA.C.S. § 8521 (RELATING TO MANAGEMENT OF FUND AND ACCOUNTS) AND 71 PA.C.S. § 5931 (RELATING TO MANAGEMENT OF FUND AND ACCOUNTS) AND all good faith determinations regarding companies as required by this act, the public fund shall be exempt from any conflicting statutory or common law obligations, including any obligations in respect to choice of asset managers, investment funds or investments for the public fund's securities portfolios. <——

Section 10. Reinvestment in certain companies with scrutinized active business operations.

(a) Reinvestment.--Notwithstanding any other provision of this act to the contrary, the public fund shall be permitted to cease divesting from certain scrutinized companies pursuant to section 6(b) or reinvest in certain scrutinized companies from which it divested pursuant to section 6(b) if clear and convincing evidence shows that the value for all assets under management by the public fund becomes equal to or less than 99.50% (50 basis points) of the hypothetical value of all assets under management by the public fund assuming no divestment for any company had occurred under section 6(b).

(b) Limitation.--Cessation of divestment, reinvestment or any subsequent ongoing investment authorized by this section shall be strictly limited to the minimum steps necessary to avoid the contingency set forth in subsection (a).

(c) Report.--For any cessation of divestment, reinvestment or subsequent ongoing investment authorized by this section, the public fund shall provide a written report to the General Assembly and the Auditor General in advance of initial reinvestment, updated semiannually thereafter as applicable, setting forth the reasons and justification, supported by clear and convincing evidence, for its decisions to cease divestment, reinvest or remain invested in companies with scrutinized active business operations.

(d) Application.--This section has no application to reinvestment in companies on the ground that have ceased to have scrutinized active business operations.

Section 11. Indemnification.

(a) General rule.--Each indemnitee shall be indemnified and held harmless by the Commonwealth for all good faith actions taken by the indemnitee and for all good faith failures to take action, regardless of the date of any such action or failure to take action; in connection with attempts to comply with any investment limitations imposed by statute against all expense, liability and loss, including, without limitation, attorney fees, judgments, fines, taxes, penalties and amounts paid or to be paid in settlements reasonably incurred or suffered by the indemnitee in connection with any proceeding.

(b) Advance payment.--The right to indemnification provided in this section shall include the right to have the expenses reasonably incurred by the indemnitee in defending any proceeding paid by the Commonwealth in advance of the final disposition of the proceeding upon the receipt by the Commonwealth of a written undertaking by the indemnitee to refund the amounts so advanced if it is ultimately determined that the indemnitee is not entitled to indemnification under this section.

(c) Persons entitled.--Indemnification pursuant to this section shall continue as to an indemnitee who has ceased to be a board member, designee of a board member, officer or employee of a public fund and shall inure to the benefit of such person's legal representatives, heirs, executors and administrators.

(d) Reimbursement to public funds.--To the extent that the Commonwealth does not make any ~~indemnificaton~~ INDEMNIFICATION payments, including any advancement of legal fees and expenses, within 30 days of demand therefore, a public fund shall make such payment and the Commonwealth shall reimburse the public fund.

(e) Construction.--The repeal or amendment of any provision of this section shall not limit the rights of any indemnitee to indemnification, including advancement of expenses, with respect to any action or failure to act occurring prior to the effective date of such repeal or amendment.

(f) Definitions.--As used in this section, the following words and phrases shall have the meanings given to them in this subsection:

"Indemnitee." Each current or former board member, duly appointed designee of a board member, officer, employee, including, without limitation, the attorneys in the Office of

Chief Counsel that serve a public fund, agent, research firm, or investment manager of a public fund who was or is a party to, or is threatened to be made a party to, or is otherwise involved in, any proceeding, by reason of the fact that the person is or was a board member, designee of a board member, officer, employee, agent, research firm or investment manager of a public fund.

"Proceeding." Any threatened, pending or completed action, suit or proceeding, including, without limitation, an action, suit or proceeding by or in the right of a public fund, relating to compliance with any investment limitations imposed by statute, whether civil, criminal, administrative, investigative or through arbitration.

Section 12. Audits.

The Auditor General shall conduct an annual compliance audit of each public fund subject to the provisions of this act. The Auditor General may refer any finding of an audit conducted under this section to the Attorney General for investigation.

SECTION 13. REIMBURSEMENT. <——

AFTER THE END OF THE FISCAL YEAR OF EACH PUBLIC FUND, THE PUBLIC FUND SHALL SUBMIT TO AND THE SECRETARY OF THE BUDGET SHALL CERTIFY THE DETERMINATION OF THE LOSSES INCURRED BY THE PUBLIC FUND AS A RESULT OF COMPLIANCE WITH THE PROVISIONS OF THIS ACT AND THE COMMONWEALTH SHALL PROMPTLY REIMBURSE THE PUBLIC FUND FOR SUCH LOSSES FROM THE GENERAL FUND.

Section ~~13~~ 14. Effective date. <——

This act shall take effect in 60 days.

PRINTER'S NO. 1257

THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE BILL

No. 1085 Session of 2007

INTRODUCED BY SHAPIRO, DeWEESE, BASTIAN, BELFANTI, BENNINGHOFF, BOYD, CALTAGIRONE, COHEN, CONKLIN, COX, CURRY, CUTLER, DeLUCA, DePASQUALE, D. EVANS, FABRIZIO, FLECK, FRANKEL, FREEMAN, GALLOWAY, GIBBONS, HENNESSEY, HERSHEY, HESS, KAUFFMAN, KENNEY, KING, KORTZ, KULA, LEACH, LENTZ, MAHONEY, MANDERINO, MANN, METCALFE, MICOZZIE, MUNDY, MURT, MYERS, NAILOR, M. O'BRIEN, O'NEILL, PARKER, PETRI, PETRONE, RAPP, READSHAW, REED, REICHLEY, ROHRER, SCHRODER, SHIMKUS, McILVAINE SMITH, M. SMITH, SOLOBAY, STEIL, R. STEVENSON, STURLA, SURRA, R. TAYLOR, TRUE, VEREB, WALKO, WANSACZ, WATSON, YOUNGBLOOD AND YUDICHAK, APRIL 16, 2007

REFERRED TO COMMITTEE ON STATE GOVERNMENT, APRIL 16, 2007

AN ACT

Amending Title 71 (State Government) of the Pennsylvania Consolidated Statutes, prohibiting investments in countries identified as sponsors of terrorism.

The General Assembly of the Commonwealth of Pennsylvania hereby enacts as follows:

Section 1. Title 71 of the Pennsylvania Consolidated Statutes is amended by adding a section to read:

§ 5942. Terrorism-related investments.

(a) Findings and policy statement.--The General Assembly finds that foreign terrorists and those organizations and countries that shelter, harbor and support them pose a grave threat to the security and well-being of all the citizens and institutions of this Commonwealth, including specifically the members of the system. As such, it is imperative that the assets of the fund be prudently managed and invested, as more particularly set forth in subsections (b), (d) and (e), to ensure that foreign terrorists and those organizations and countries that shelter, harbor and support them derive no benefit from the investments.

(b) Prohibited investments.--On and after the effective date of this section, the board shall not invest in the stocks, securities or other obligations of any entity engaged in business with a state sponsor of terror. In the event the board becomes aware that it has invested in violation of this subsection, the board shall immediately move to divest itself of the investment in a prudent manner.

(c) Humanitarian aid exception.--The board shall permit investments in an entity:

(1) that engages in the provision of goods and services that relieve human suffering or promote health or religious, spiritual, educational, humanitarian or journalistic activities; or

(2) that conducts commercial transactions in any country identified as a state sponsor of terror pursuant to a permit or license issued by the United States Government or the United Nations and is exempt from divestment and exclusion.

(d) Portfolio review.--Within 90 days of the effective date of this section and at least annually thereafter, the board shall complete a comprehensive review of its investments to determine compliance with the requirements of subsection (b). The board shall provide the General Assembly with a copy of the comprehensive review annually. In the event the board becomes aware that is has invested in violation of this section, then the board shall immediately move to divest itself of the

<u>investment in a prudent manner.</u>

<u>(e) Investment managers.--All existing and future investment managers retained by the board on or after the effective date of this section who invest in the name of the system shall be notified by the board of their obligation to conduct their investment activities on behalf of the board in a manner designed to comply with the requirements of subsection (b).</u>

<u>(f) Definitions.--As used in this section, the following words and phrases shall have the meanings given to them in this subsection:</u>

<u>"Entity." A corporation, partnership, limited liability company, business trust, other association, government entity, other than the United States of America and the states that comprise it, estate, trust, foundation or natural person.</u>

<u>"State sponsor of terror." The term includes:</u>

<u>(1) a country identified by the Office of Foreign Assets Control in the United States Department of the Treasury as sponsoring terrorist activities; or</u>

<u>(2) a country designated by the United States Department of State as having repeatedly provided support for acts of international terrorism.</u>

Section 2. This act shall take effect in 60 days.

PRINTER'S NO. 1259

THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE BILL

No. 1087 Session of 2007

INTRODUCED BY SHAPIRO, DeWEESE, BASTIAN, BELFANTI, BENNINGHOFF, BOYD, CALTAGIRONE, COHEN, CONKLIN, COX, CURRY, CUTLER, DeLUCA, DePASQUALE, D. EVANS, FABRIZIO, FLECK, FRANKEL, FREEMAN, GALLOWAY, GIBBONS, HENNESSEY, HERSHEY, HESS, KAUFFMAN, KENNEY, KING, KORTZ, KULA, LEACH, LENTZ, MAHONEY, MANDERINO, MANN, METCALFE, MICOZZIE, MUNDY, MURT, MYERS, NAILOR, M. O'BRIEN, O'NEILL, PARKER, PETRI, PETRONE, RAPP, READSHAW, REED, REICHLEY, ROHRER, SCHRODER, SHIMKUS, McILVAINE SMITH, M. SMITH, SOLOBAY, STEIL, R. STEVENSON, STURLA, SURRA, R. TAYLOR, TRUE, VEREB, WALKO, WANSACZ, WATSON, YOUNGBLOOD AND YUDICHAK, APRIL 16, 2007

REFERRED TO COMMITTEE ON STATE GOVERNMENT, APRIL 16, 2007

AN ACT

Amending Title 24 (Education) of the Pennsylvania Consolidated Statutes, providing for prohibition of investments in countries identified as sponsors of terrorism.

The General Assembly of the Commonwealth of Pennsylvania hereby enacts as follows:

Section 1. Title 24 of the Pennsylvania Consolidated Statutes is amended by adding a section to read:

<u>§ 8528. Terrorism-related investments.</u>

<u>(a) Findings and policy statement.--The General Assembly finds that foreign terrorists and those organizations and countries that shelter, harbor and support them pose a grave threat to the security and well-being of all the citizens and institutions of this Commonwealth, including specifically the members of the system. As such, it is imperative that the assets</u>

of the fund be prudently managed and invested, as more particularly set forth in subsections (b), (d) and (e), to ensure that foreign terrorists and those organizations and countries that shelter, harbor and support them derive no benefit from the investments.

(b) Prohibited investments.--On and after the effective date of this section, the board shall not invest in the stocks, securities or other obligations of any entity engaged in business with a state sponsor of terror. In the event the board becomes aware that it has invested in violation of this subsection, the board shall immediately move to divest itself of the investment in a prudent manner.

(c) Humanitarian aid exception.--The board shall permit investments in an entity:

(1) that engages in the provision of goods and services that relieve human suffering or promote health or religious, spiritual, educational, humanitarian or journalistic activities; or

(2) that conducts commercial transactions in any country identified as a state sponsor of terror pursuant to a permit or license issued by the United States Government or the United Nations and is exempt from divestment and exclusion.

(d) Portfolio review.--Within 90 days of the effective date of this section and at least annually thereafter, the board shall complete a comprehensive review of its investments to determine compliance with the requirements of subsection (b). The board shall provide the General Assembly with a copy of the comprehensive review annually. In the event the board becomes aware that is has invested in violation of this section, then the board shall immediately move to divest itself of the investment in a prudent manner.

(e) Investment managers.--All existing and future investment managers retained by the board on or after the effective date of this section who invest in the name of the system shall be notified by the board of their obligation to conduct their investment activities on behalf of the board in a manner designed to comply with the requirements of subsection (b).

(f) Definitions.--As used in this section, the following words and phrases shall have the meanings given to them in this subsection:

"Entity." A corporation, partnership, limited liability company, business trust, other association, government entity, other than the United States of America and the states that comprise it, estate, trust, foundation or natural person.

"State sponsor of terror." The term includes:

(1) a country identified by the Office of Foreign Assets Control in the United States Department of the Treasury as sponsoring terrorist activities; or

(2) a country designated by the United States Department of State as having repeatedly provided support for acts of international terrorism.

Section 2. This act shall take effect in 60 days.

APPENDIX II

STATE DIVESTMENT LEGISLATION
(as of July 30, 2007)

National Conference of State Legislatures

NATIONAL CONFERENCE *of* STATE LEGISLATURES

The Forum for America's Ideas

State Divestment Legislation

(as of July 30, 2007)

Growing concern over genocide in Sudan and countries that sponsor terrorism has prompted state legislatures to consider actions to limit or eliminate state investments in firms doing business with such countries. The following charts summarize enacted legislation from 2005 and 2006 and bills introduced in the 2007 session.

ENACTED LAW

State	Bill No.	Last Action	Brief Summary
CALIFORNIA	ACR 11 Resolution Chapter No. 98	8/30/05	Encourages the Public Employees' Retirement System and the California State Teachers Association to make certain that no public employee retirement funds are invested in companies doing business in Sudan
	AB 2179 Chaptered by the Secretary of State; Chapter No. 441	9/25/06	This law assures certain current and former employees of the University of California for all claims, demands, suits, actions, damages, judgments, costs, charges, and expenses, including court costs and attorney's fees, and all liability, losses, and damages of any nature whatsoever that these persons may at anytime sustain by reason of any decision of the regents not to invest in firms involved in business with Sudan
	AB 2941 Chaptered by the Secretary of State; Chapter No. 442	9/25/06	This law prohibits the Public Employees' Retirement System and the State Teachers' Retirement System from investing in a company with active business operations in Sudan, and for both systems' Board of Administration to sell or transfer investments in such companies. Requires the boards to report to the Legislature any such investments and the sale or transfer of the same, by January 1, 2008 and every year afterwards.
	AJR 6 Resolution Chapter No. 57	6/27/05	Expresses the sense of the legislature regarding Sudan, and requests that the President and Congress of the United States continue to take all prudent and necessary steps to ensure that these matters are addressed at the highest levels of the federal government.

COLORADO	HB 1184 Chapter No. 149	4/19/07	Provides provisions against companies financially involved with Sudan to the board of directors of certain state instrumentalities, state political subdivisions and other public entities with authority to invest money and state contributions.
CONNECTICUT	HB 5632 Public Act No. 51	5/8/06	Enables the State Treasurer to divest state funds invested in companies doing business in Sudan, or decide against further or future investments; extends the deadline for a final audited report to the Governor from October 15 to December 31.
FLORIDA	SB 2142 Chapter No. 2007-88	6/8/07	Protecting Florida's Investment Act; Requires the State Board of Administration (SBA) to identify companies, with public money invested, doing business with Sudan and Iran and maintain a "scrutinized companies list" with names of such companies, as well as encourage these companies to refrain from doing business with Sudan and Iran. Requires the SBA to divest itself of publicly traded securities and refrain from acquiring securities of such companies
HAWAII	HB 34 Act No. 192	6/18/07	Prohibits the Employees' Retirement System from acquiring securities of companies that have active business operations with Sudan. Effective July 1, 2007
ILLINOIS	SB 23 Public Act No. 94-79	6/7/05	Prohibits the State Treasurer from depositing any funds or transacting any business with any financial institutions doing business with Sudan, unless an expressly authorized officer of the institution certifies that the company has not loaned to or invested in certain entities involved with the Republic of Sudan. Provides that a fiduciary under that code shall not transact any business with a company that engages in activities with Sudan *District Court Ruling* (2/23/07) Provides that a fiduciary under that code shall not transact any business with a company that engages in activities with Sudan. The Federal District Court for the Northern District of Illinois ruled Public Act No. 94-79 unconstitutional
INDIANA	HB 1067 Public Act No. 149	5/3/07	Relates to members of the teachers' retirement fund (TRF) who is receiving a benefit from TRF and who is a party in an action for dissolution of marriage; Requires the public employees' retirement fund (PERF) and TRF, in the capacity of shareholders, to request

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			that companies with certain business activities in Sudan cease those business activities,for a company that is unresponsive to a request, sell or divest all publicly traded securities held by PERF or TRF in that company; Requires that PERF and TRF report their Sudan-related activities to the general assembly; Excludes private equity funds held by PERF and TRF from the divestment requirement; Provides for civil immunity for any act or omission, and indemnification for costs or expenses, including reasonable attorney fees, associated with a claim or lawsuit; related to divestment. Assigns to the pension management oversight commission the study of TRF's structure.
IOWA	SB 361	5/4/07	Prohibits investment of certain public funds in companies doing business in Sudan by the Treasurer of State, the Iowa Public Employees Retirement System and the State Board of Regents.
KANSAS	HB 2457	5/11/07	Prohibits investment of Kansas Public Employee Retirement System (KPERS) funds in companies with certain business operations in Sudan, and establishes standards and procedures for targeted divestment from holdings in prohibited companies except for passively-managed commingled funds when the estimated cost of divestment exceeds a threshold test.
MAINE	SB 675 Public Law No. 537	5/5/06	Requires the Maine Retirement System to divest itself of holdings in companies doing business with Sudan
MARYLAND	HB 1336 Chapter No. 40	4/10/07	2007 Darfur Protection Act - Divestiture from the Republic of Sudan; Requires the Board of Trustees of the State Retirement and Pension System to review specified investment holdings, and encourage companies to take specified actions, take divestment action with regard to specified investments and take certain issues into account prior to taking specified actions
	SB 543 Chapter No. 39	4/10/07	2007 Darfur Protection Act - Divestiture from the Republic of Sudan; Requires the Board of Trustees for the State Retirement and Pension System to review specified investment holdings, encourage companies doing business with Sudan to take specific actions, provide written notice to those companies
MINNESOTA	SB 1075 Chapter No. 117	5/23/07	Requires the State Board of Investment to divest from certain investments relating to Sudan; Provides that the Board make its best efforts to identify scrutinized that the Board has direct or indirect holdings or possible future holdings; Effective date: 8/1/07
NEW JERSEY	AB 3482/SB 2145	7/28/05	Requires the Division of Investment in the Department of the Treasury to divest State-administered pension fund investments from foreign companies that have ties to, or activities in, Sudan or its

	Chapter 162		instrumentalities. The bill authorizes the State Treasurer to select an independent research firm that specializes in global security risk for portfolio determinations to make recommendations to the Division of Investment.
OREGON	SB 1089	8/5/05	Requires the Oregon Investment Council and State Treasurer to divest all investments in companies that do business, or other activities, in the Republic of the Sudan.
RHODE ISLAND	HB 5142 Public Law No. 2007-93 *similar law:* SB 87 Public Law No. 2007-79	6/22/07	Limits state investment in Sudan and in companies that do business with the government of the Sudan. Establishes criteria for determining a "scrutinized company" which has ties to the Sudanese government and/or the Darfur genocide.
TEXAS	HB 247	6/15/07	Prohibits the investment of state funds in certain private business entities doing business in Sudan; Effective January 1, 2008.

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State	Bill	Last Action	Brief Summary
ALABAMA	HR 711	5/31/07	Urges Congress to address the crisis in Sudan.
ARKANSAS	SCR 20	3/29/07 *Approved by Governor	Encourages the state retirement systems to identify their investments in companies doing business in Sudan, divest in those companies and prevent future investments in those companies until the genocide in the Darfur region has ended
CALIFORNIA	AB 221	7/18/07	Prohibits the Public Employees' Retirement System and the State Teachers' Retirement System from investing in companies doing business with Iran
	AB 1089	7/10/07	Requires the Department of General Services to identify companies that have substantial business operations in Sudan and present the list to the Legislature; prohibits state agencies from contracting with the identified companies for contracts exceeding $100,000

COLORADO	HJR 1020	4/20/07	Condemns the genocide in Darfur and urges the President and Congress to continue to work with the international community to halt the human rights violations, to impose economic sanctions, and to bring humanitarian assistance and lasting peace to Darfur
DELAWARE	HJR 9	6/28/07	Condemns the genocide in Sudan, urges continued work with the international community to end human rights violations in the region, and encourages the Delaware Public Employees Retirement System to divest in foreign companies doing business the Sudanese government.
FLORIDA	HB 703	5/2/07	Prohibits the State Board of Administration (SBA) from investing in certain companies with ties to or engaged in business with known state sponsors of terror; requires the SBA to review investments and take certain sanctions to sell, redeem, divest, or withdraw any prohibited investments
	HB 931 identical bill: SM 1698	5/2/07 5/18/07 *signed by Officers and filed with Secretary of State	Urges Congress, with the support of the President of the United States, to engage the international community to take action in the effort to bring just and lasting peace to the people of Darfur
	HB 1431	4/22/07	Requires the State Board of Administration (SBA) to identify companies, with public money invested, doing business with Sudan and maintain a "scrutinized companies list" with names of such companies, as well as encourage these companies to refrain from doing business with Sudan. Requires the SBA to divest itself of publicly traded securities and refrain from acquiring securities of such companies
GEORGIA	HB 160	1/26/07	Prohibits the Office of Treasury and Fiscal Services from depositing certain funds in certain financial institutions, unless the institution has certified that it does not have any direct loans or knowledge of any indirect loans to certain entities connected with Sudan; provides that a state agency may not procure certain supplies that are produced or manufactured in the Republic of Sudan
	HB 256	2/2/07	Provides that no public retirement system shall invest funds in public obligations of companies doing business with Sudan and for any public retirement system with such investments to divest itself by July 1, 2008

	HR 273	3/27/07	Urges Congress to continue to press for strong measures to end the violence in Sudan and urges the Securities and Exchange Commission to provide guidance to public pension fund managers in order to avoid investments which may be supporting nations involved in the support of terrorism or human rights violations; and or other purposes
	SR 677	4/20/07	Urges the board of trustees of the state's retirement systems not to invest in companies included in the terrorism sanctions issues by the Office of the Foreign Assets Control of the U.S. Department of Treasury, including, but not limited to the companies doing business with Sudan, Iran, Syria and Korea; Encourages divestment of such investments
HAWAII	HB 1117 similar bill: SB 1255	2/5/07 1/26/07	Requires the Employees' Retirement System to divest itself of investments in companies that provide significant support for genocide in Sudan; allows reinvestment; provides exemptions; requires reporting; authorizes enforcement by the Attorney General; sunsets when the Darfur genocide ends or divestment interferes with U.S. foreign policy
	HR 22 similar bill: HCR 36	5/14/07 3/13/07	Recommends that the European Union, United Nations, North Atlantic Treaty Organization, Government of Sudan, Janjaweed Militia, Sudanese Libertarian Army and Justice Equality movement pass policies and enter into treaties, respectively, to end the conflict in Darfur
	SCR 191	3/23/07	Urges the Employees' Retirement System to refrain or divest from participation in ownership or capital-providing capacity with companies that provide significant practical support for genocide, including certain non-U.S. companies currently doing business in Sudan
ILLINOIS	SB 99	1/31/07	Repeals a provision that prohibits a fiduciary of a retirement system or pension fund from transacting business with certain entities associated with the Republic of Sudan
	SB 1169	6/29/07 *to Governor	Act to Disassociate from Genocide and Terrorism in Sudan; Amends the Pension Code concerning prohibited investments; Requires state funded retirement systems to divest of investments in companies doing business in Sudan
INDIANA	SB 380	1/11/07	Prohibits the investment of funds held by a public officer of the state, the public employees' retirement fund, or the teachers' retirement fund with an institution that: (1) has loans to; (2) is engaged in business with or in; or (3) has invested in another company engaged in business with or in; Sudan or its instrumentalities. Requires the sale within three years of any investments that violate the prohibition
IOWA	HB 230(formerly: SSB	2/8/07	Prohibits investment of public funds in companies doing business in Sudan; Effective 7/1/07

	1106)		
	HR 23	2/16/07	Urges immediate action to stop the campaign of racial extermination in Darfur.
KANSAS	HB 2468	3/15/07	Prohibits Kansas Public Employee Retirement System from investing in firms with business operations in Sudan and divest current holdings in such companies
	HB 2497	2/12/07	Requires the Kansas Public Employee Retirement System to divest in companies doing business with Iran.
	SB 335	3/16/07	Prohibits Kansas Public Employee Retirement System from investing in firms with business operations in Sudan and divest current holdings in such companies
KENTUCKY	HB 25	2/20/07	Prohibits the Judicial Retirement Fund, the Teacher's Retirement System Board, the State Investment Commission, and the Kentucky Retirement Systems Board from investing in companies relating to the Sudan and require that they divest themselves of such investments.
	HCR 16	3/1/07	Urges Congress to pressure Sudan to end violence in Darfur and the Security Exchange Commission to issue guidance to investors concerning pension plans and other investments to enable them to identify companies that may support terror.
MASSACHUSETTS	HB 2556	1/11/07	Requires the Treasurer of the State to divest, over a period of 12 months, any current investments in companies that do business with Sudan.
	HB 3533	4/17/07	Prohibits investment of any public pension or annuity funds in companies doing business with Sudan. Excludes companies which, either directly or indirectly, provide services dedicated to social development.
	SB 1437	1/11/07	Provides for divestment of public pension funds from companies doing business with Sudan
	SB 2255	7/26/07 *passed Senate	Requires divestment of public pension funds from companies doing business with Sudan

MICHIGAN	HB 4854	7/25/07 *passed House	Amends the Public Employee Retirement System Investment Act; Requires retirement systems to divest state funds in companies doing business with Sudan
	HR 59	7/29/07	Memorializes Congress and the U.S. State Department to increase efforts to halt the violence and provide humanitarian assistance in the Darfur region of Sudan
	SB 555	5/29/07	Requires the State Treasurer to divest state funds in companies doing business with Sudan.
MINNESOTA	HB 1332	5/3/07	Requires the State Board of Investments to divest in companies doing business with Sudan
MISSOURI	HCR 32	4/12/07	Requires the public retirement systems of Missouri to divest all public funds invested in companies that have a direct financial relationship with terrorist-sponsoring states, as designated by the U.S. Department of State
	HCR 40	5/18/07	Calls on the President of the United States and Congress to take immediate action regarding the genocide in Sudan; Urges Congress to increase humanitarian aid to the Darfur region
NEW JERSEY	AB 169 / SB 1183	1/30/07	Requires the Department of Treasury, Division of Investment to divest state-administered pension funds investments from companies, banks and financial institutions doing business in countries that sponsor terrorism, as designated by the U.S. Department of State.
	AB 3043 / SB 2615	6/14/07	Prohibits investment of state public employee retirement funds in foreign companies doing business with Iran.
NEW YORK	AB 268	1/3/07	Prohibits the investment of public employee retirement funds in companies doing business with Sudan and requires divestiture of currently invested funds
	AB 4869	2/8/07	Prohibits investment of state public employee retirement funds in companies doing business with Sudan; requires divestment in such companies within 60 days of the effective date

	AB 5659	2/21/07	Requires the State Comptroller and Commissioner of Taxation and Finance to divest state employee benefit funds from companies that do business in Sudan
	AB 7814	5/17/07	Authorizes the Comptroller to divest in companies doing business with Sudan
	(identical bill: SB 5287)	5/22/07	
	AB 9020 (identical bill: SB 5913)	6/7/07	Creates the Iranian Economic Divestment Act of 2007; Authorizes the Comptroller to refrain from investing state retirement system funds in companies doing business with Iran or divest in companies doing business with Iran
	SB 2924	2/15/07	Prohibits the investment of certain public funds in companies doing business with Sudan; requires divestment in such companies within three years.
NORTH CAROLINA	HB 291	7/27/07	Sudan (Darfur) Divestment Act; Requires the State Treasurer to divest any public funds in companies doing business with Sudan
	(similar bill: SB 516)	5/9/07	
OHIO	HB 151	6/13/07	Prohibits certain public investors from investing in companies with scrutinized business operations tied to Iran or Sudan; Requires public investors to divest in current holdings in such companies
	SB 161	5/3/07	Prohibits companies doing business with the state from doing business with Sudan as long as genocide continues in the Darfur region
OKLAHOMA	HB 1900	2/6/07	Prohibits companies conducting business with the state from also conducting business with the Darfur region of western Sudan, as long as the violence continues in that region
	HR 1026	5/17/07	Encourages state retirement systems to divest current holdings in companies doing business with Iran, Sudan, Syria and Korea.
OREGON	HJR 53	4/13/07	Urges investors within the state to divest in foreign companies doing business with Iran

PENNSYLVANIA	HB 729	6/4/07	Prohibits state depositories from making or maintaining financial loans or transactions with Sudan
	HB 1085	6/30/07	Prohibits investment of state funds in companies doing business with countries identified by the federal government as state sponsors of terror
	similar bill: HB 1087	6/30/07	
	HB 1140	7/8/07	Prohibits the investment of state funds in certain private businesses doing business in Sudan
	HR 36	1/30/07	Creates a select committee to study potential courses of action for state departments, agencies and pension systems that make investments in, procure goods and services from or otherwise do business with companies conducting business in or with Sudan.
	similar bills: SR 16	1/29/07	
	SR 17	1/29/07	
TEXAS	HB 419	2/1/07	Relates to divestment by the Employees Retirement System of Texas and the Teacher Retirement System of Texas of certain investments related to the Republic of Sudan
	HB 667	2/6/07	Prohibits the investment of state funds in certain private business entities doing business in Sudan
	SB 1330	4/16/07	Prohibits the investment of state funds in companies doing business in Iran.
VIRGINIA	HB 1828	2/6/07	Requires the Virginia Retirement System to divest itself of investments in companies meeting certain criteria gauged to be related to the violence in Sudan.
	similar bills:		
	HB 2869	2/6/07	

	SJR 487	2/6/07	Request that the Virginia Retirement System to study the feasibility of restricting investments in companies doing business with Sudan.
WASHINGTON	SJM 8017	2/16/07	Requests that the President use all means necessary to bring a peaceful solution to the conflict in Sudan's Darfur region.
WISCONSIN	AB 124	3/21/07	Prohibits the Wisconsin State Investment Board from making future investments with companies doing business with Sudan; requires divestment of current investments in such companies
	SB 57	3/28/07	Prohibits the Wisconsin State Investment Board from making certain investments with companies doing business with Sudan
WYOMING	HB 245	2/13/07	Provides that state funds shall not be invested in companies doing business Sudan

APPENDIX III

“SUDAN COMPANY RANKINGS”

Sudan Divestment Task Force

SUDAN DIVESTMENT
TASK FORCE
A project of the Genocide Intervention Network
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Sudan Company Rankings

IMPORTANT: NOT VALID AFTER NOVEMBER 30, 2007

PLEASE DO NOT CIRCULATE OR POST. REFER INTERESTED PARTIES TO INFO@SUDANDIVESTMENT.ORG.

A Report by
The Sudan Divestment Task Force

UPDATED August 31, 2007

Contributors to this rankings report include the Sudan Divestment Task Force research team, various fiduciaries that have engaged companies on this list, non-profit groups and think tanks with information on Sudan, and donated efforts by individuals who specialize in research on companies operating in states with weak governance, with a particular recognition to John Fawcett. All research has been double confirmed by at least two individuals unless indicated. Analytical review of certain companies has been provided by Calvert.

Critical Background Information

PLEASE READ

The *Sudan Company Rankings* report is intended to serve as a listing of all companies that the Sudan Divestment Task Force (SDTF) feels warrant extra scrutiny by investors on account of their business operations in Sudan. While there are over 500 companies with connections to Sudan that SDTF has reviewed, only the small subset contained in this document appear to warrant further investigation.

Please also note that not all companies in this document warrant divestment. Some are clear candidates for shareholder engagement (further details of where to draw the line between divestment and engagement appear below).

CRITERIA

In contrast to other models of divestment that advocate targeting all non-humanitarian business connections to Sudan, SDTF only places a company in this document if it generally:

1. Has a business relationship with the government, a government-created project, or companies affiliated with a government-created project; AND

2. Provides little benefit to the disadvantaged populations of Sudan; AND

3. Has not developed a substantial business-practice policy that acknowledges and deals with the fact that the company may be inadvertently contributing to the Sudanese government's genocidal capacity.

These general criteria are more specifically defined in SDTF's legislative model for targeted divestment:

www.sudandivestment.org/docs/task_force_targeted_divestment_model.pdf

And/or SDTF's sample Investment Policy Statement:

www.sudandivestment.org/docs/SDTF_Investment_Policy_Statement.pdf

Nearly all of the companies SDTF targets are in the oil, mineral extraction, power, or defense industries. SDTF developed these criteria because we strongly feel that, in general, economic investment in a country is critical for democratization and improved living standards. We are only interested in targeting irresponsible investments that support a government committing genocide. Limiting the scope of divestment to worst offenders also serves to minimize potential impact on fiduciaries.

CRITICAL CAVEATS

1. Please note that our rankings report is updated quarterly and while our list of companies has remained generally consistent, we ask that our organization be consulted for updates before any action pursuant to our report is taken (a small number of companies have moved off our list during the past year while others have moved on).

2. As detailed below, we provide recommendations as to which companies mentioned in this document are best suited for divestment and/or continued shareholder

engagement. If you do plan to divest or take action, please keep us informed.

3. Besides this document, SDTF produces a *Sudan Company Profile* report that provides background information on each company in the list below, including, in certain cases, the specific "asks" SDTF has for the company. SDTF can also provide spreadsheets that contain additional investment information on the companies contained in our list (including as many CUSIP, SEDOL, and other identifiers as we could identify as well as alternative company names). We also have executive contacts and mailing addresses available for all companies contained in our list. Please contact us if you would like any of these items:

info@sudandivestment.org

4. Please do not circulate or post this report; it will soon become outdated and we prefer that interested parties request the *Sudan Company Rankings* report directly from SDTF so we can adequately inform them as to the context and purpose of our document.

5. We have developed, in conjunction with InvestedInterests.com, an online screening tool (for educational purposes only) that allows individuals to screen US-based mutual funds for exposure to companies that appear on our report. The tool is based on holdings of mutual funds from the previous financial quarter.

Please see:

http://www.sudandivestment.org/screener.asp

6. We have developed a partnership with Calvert regarding Sudan divestment that includes analytical support for this document. The details of the SDTF-Calvert partnership can be viewed at:

www.calvert.com/sudan

7. Not all companies that appear in this report are targets for divestment; some have demonstrated a willingness to change their corporate behavior in Sudan (indeed, some have already taken admirable action), and some companies have ahd very concerning past activity, but unknown current operations in Sudan. These companies are therefore strong candidates for continued shareholder engagement. Finally, there are several companies with highly problematic operations in Sudan but who presently have no known publicly-traded equity. These companies may nevertheless be "investible" through private placements, corporate bonds, or private equity funds. **Accordingly, SDTF has created three categories of companies below:**

- **Highest Offenders**
- **Ongoing Engagement**
- **No Publicly-Traded Equity**

The explanation for each category precedes the actual list. SDTF emphasizes that all companies, regardless of category, should be engaged before any divestment decision is made.

Ranked Categories of Companies Warranting Scrutiny

NOTE: Before reading this ranked list, please see the "Critical Background Information" notice above.

Category One: Highest Offenders

The following category of companies represents those businesses with the most problematic operations in Sudan according to the SDTF model of targeted divestment:

www.sudandivestment.org/docs/task_force_targeted_divestment_model.pdf

and/or the SDTF sample Investment Policy Statement:

www.sudandivestment.org/docs/SDTF_Investment_Policy_Statement.pdf

In general, these companies have proven to be largely unresponsive to engagement by shareholders or unwilling to consider altering problematic practices in Sudan. While SDTF strongly recommends engagement with all companies before any divestment decision is made, SDTF considers companies in this category to be likely candidates for divestment at present time. This classification is based upon a combination of what these companies are doing in Sudan and how these companies have responded to the SDTF and the fiduciaries SDTF interacts with over the past 15 months.

The companies in this category are ranked from worst at the top to less problematic at the bottom, although all companies in this category are likely candidates for divestment. Since the targeted divestment model targets both parent companies and majority-owned subsidiaries of problematic companies, these affiliates have been included in the list below.

CHINA NATIONAL PETROLEUM CORPORATION (CNPC)	
PETROCHINA (majority-owned publicly traded subsidiary, bonds issued) **CNPC HONG KONG (majority-owned publicly traded subsidiary)**	**Country:** China **Industry Sector:** Oil

PETROLIAM NASIONAL BERHAD (PETRONAS) *BONDS ISSUED*	
PETRONAS GAS (majority-owned publicly traded subsidiary) **PETRONAS DAGANGAN (majority-owned publicly traded subsidiary)** **MISC BERHAD (majority-owned publicly traded subsidiary)** **OPTIMAL OLEFINS (MALAYSIA) SDN BERHAD (majority-owned subsidiary, bond issued)** **PETRONAS FERTILIZER (KEDAH) SDN BERHAD (wholly-owned subsidiary, bond issued)** **PETRONAS ASSETS SDN BERHAD (wholly-owned subsidiary, bond issued)** **PETRONAS CAPITAL LIMITED (wholly-owned subsidiary, bond issued)** **MIDICITI RESOURCES SDN BHD (majority-owned subsidiary, bond issued)**	**Country:** Malaysia **Industry Sector:** Oil

OIL AND NATURAL GAS CORP. LTD. (ONGC)	
MANGALORE REFINERY AND PETROCHEMICALS LTD (majority-owned publicly traded subsidiary)	**Country:** India **Industry Sector:** Oil

CHINA PETROCHEMICAL CORPORATION (SINOPEC GROUP)	
CHINA PETROLEUM AND CHEMICAL CORPORATION (SINOPEC CORP) (majority-owned publicly traded subsidiary, bonds issued) **SINOPEC SHANGHAI PETROCHEMICAL CO. LTD. (majority-owned publicly traded subsidiary, bonds issued)** **SINOPEC KANTON HOLDINGS (majority-owned publicly traded subsidiary)**	**Country:** China **Industry Sector:** Oil

LUNDIN PETROLEUM	
LUNDIN INTERNATIONAL SA (majority-owned publicly traded subsidiary)	**Country:** Sweden **Industry Sector:** Oil

AREF INVESTMENT GROUP	
	Country: Kuwait **Industry Sector:** Oil

MUHIBBAH ENGINEERING BERHAD	
	Country: Malaysia **Industry Sector:** Oil

KENCANA PETROLEUM BERHAD	
	Country: Malaysia **Industry Sector:** Oil

KEJURUTERAAN SAMUDRA TIMUR BHD (KSTB)	
	Country: Malaysia **Industry Sector:** Oil

PETROFAC	
	Country: UK **Industry Sector:** Oil

PECD BERHAD ***BONDS ISSUED***	
	Country: Malaysia **Industry Sector:** Oil

WEATHERFORD INTERNATIONAL LIMITED ***BONDS ISSUED***	
WEATHERFORD INTERNATIONAL INCORPORATED (bonds issued)	**Country:** US **Industry Sector:** Oil

LA MANCHA RESOURCES	
AREVA SA (publicly traded parent)	**Country:** Canada **Industry Sector:** Oil

WÄRTSILÄ OYJ	
	Country: Finland **Industry Sector:** Power/Energy

BHARAT HEAVY ELECTRICALS LTD ***BONDS ISSUED***	
	Country: India **Industry Sector:** Power/Energy

HARBIN POWER EQUIPMENT COMPANY LIMITED	
	Country: China **Industry Sector:** Power/Energy

ALSTOM ***BONDS ISSUED***	
WUHAN BOILER CO (majority-owned publicly traded subsidiary)	**Country:** France **Industry Sector:** Power/Energy

AVICHINA INDUSTRY & TECHNOLOGY COMPANY LTD (AVICHINA)	
JIANGXI HONGDU AVIATION (HONGDU AVIAITION) (majority-owned publicly traded subsidiary) **HAFEI AVIATION INDUSTRY (majority-owned publicly traded subsidiary)** **HARBIN DONGAN AUTO ENGINE CO (majority-owned publicly traded subsidiary)** **JIANGXI CHANGHE AUTOMOBILE CO (majority-owned publicly traded subsidiary)**	**Country:** China **Industry Sector:** Aircraft/Automotive

DONGFENG AUTOMOBILE COMPANY LIMITED	
	Country: China **Industry Sector:** Automotive

MITSUI ENGINEERING & SHIPBUILDING CO LTD (MES) ***BONDS ISSUED***	
	Country: Japan **Industry Sector:** Power/Energy

INDIAN OIL CORPORATION LTD (IOCL) ***BONDS ISSUED***	
LANKA IOC LIMITED (majority-owned publicly traded subsidiary) **BONGAIGAON REFINERY & PETROCHEMICALS LTD (BRPL) (majority-owned publicly traded subsidiary)** **CHENNAI PETROLEUM CORPORATION LIMITED (CPCL) (majority-owned publicly traded subsidiary)**	**Country:** India **Industry Sector:** Oil

SCOMI GROUP BERHAD ***BONDS ISSUED***	
SCOMI ENGINEERING BERHAD (majority-owned publicly traded subsidiary) **KMCOB CAPITAL BERHAD (majority-owned subsidiary, bonds issued)**	**Country:** Malaysia **Industry Sector:** Oil

WEIR GROUP PLC	
	Country: UK **Industry Sector:** Oil

ELECTRICITY GENERATING PUBLIC COMPANY LIMITED (EGCO)	
KHANOM ELECTRICITY GENERATING CO LTD (majority-owned subsidiary, bond issued)	**Country:** Thailand **Industry Sector:** Power/Energy

Category Two: Ongoing Engagement

The following category of companies represents those businesses that SDTF either finds concerning or has found concerning in the past, but that do not unambiguously, at present time, meet the criteria for divestment according to the SDTF model of targeted divestment:

www.sudandivestment.org/docs/task_force_targeted_divestment_model.pdf

and/or the SDTF sample Investment Policy Statement:

www.sudandivestment.org/docs/SDTF_Investment_Policy_Statement.pdf

Additionally, the following category contains companies whose current operations are unknown, but may have demonstrated problematic "highest offender" activity in the past.

In general, these companies do not fully meet the criteria for divestment according to the SDTF model or Investment Policy Statement due to one of the following reasons:

A. The company has engaged shareholders and is remedying past problematic actions, and SDTF is simply monitoring responsible follow-up actions pledged by the company.

B. Further clarification is needed regarding the exact nature of present operations in Sudan in order to help determine the extent to which those operations are confounding versus ameliorating the genocide in Darfur.

SDTF therefore considers companies in this category to be targets for continued shareholder engagement and further emphasizes the importance of engaging companies in this category. The vast majority of companies that have improved their behavior in Sudan transited through this category; removal from Category Two is often a resultant of sustained shareholder engagement.

The companies in this category are ranked from worst at the top to less problematic (or least potentially problematic) at the bottom, although all companies in this category are likely candidates for ongoing engagement at present time. Because these companies are presently candidates for engagement and because it is more efficient for fiduciaries to target only one affiliate of a problematic company for engagement, the parent companies and/or majority-owned subsidiaries of the companies below have not been listed (unlike the highest offender category).

RELIANCE INDUSTRIES (RIL)	
Oil company has aggressively bid for oil concessions in Sudan. Currently bidding for open concession in Block 12B.	**Country:** India **Industry Sector:** Oil

SUDAN TELECOMMUNICATIONS COMPANY (SUDATEL)	
Company was previously complicit in Darfur genocide.	**Country:** Sudan **Industry Sector:** Telecomm

BOLLORE GROUP	
Current operations of company in Sudan need to be clarified.	**Country:** France **Industry Sector:** Oil

MAN AG	
Company has been involved in the sale of large-scale diesel engines in Sudan. It is currently unclear how much of those sales have been to problematic entities.	**Country:** Germany **Industry Sector:** Oil and Power/Energy

CHINA NORTH INDUSTRIES CORPORATOIN (NORINCO)	
In 2006, company's weapons were found in Darfur among Chadian rebels supported by the government of Sudan. Current operations of company in Sudan need to be clarified.	**Country:** China **Industry Sector:** Military

ICSA	
Current operations of company are primarily in the East of Sudan.	**Country:** India **Industry Sector:** Power/Energy

NIPPON OIL	
Japan's largest oil refiner, the company recently made a large oil purchase in Sudan. It is unclear whether the purchase was made directly from the government of Sudan or a third-party.	**Country:** Japan **Industry Sector:** Oil

SOJITZ	
Company is currently involved in shipping oil from Sudan. Longer-term involvement needs to be clarified.	**Country:** Japan **Industry Sector:** Oil

BHARAT ELECTRONICS LIMITED	
Company may have sold defense equipment to the government of Sudan.	**Country:** India **Industry Sector:** Defense

CONCORDIA MARITIME	
Company is currently involved in shipping oil from Sudan. Longer-term involvement needs to be clarified.	**Country:** Malaysia **Industry Sector:** Shipping

STERLITE OPTICAL TECHNOLOGIES LIMITED	
Current operations of company in Sudan need to be clarified.	**Country:** India **Industry Sector:** Oil

ATLAS COPCO AB	
Unclear whether company's mining equipment is used for problematic mining operations in Sudan.	**Country:** Sweden **Industry Sector:** Mining

NIPPON YUSEN (NYK LINE)	
It is unclear whether company is shipping Sudanese petroleum with current shipments from Port Sudan.	**Country:** Japan **Industry Sector:** Shipping

MARUBENI CORPORATION	
US subsidiary may have violated US sanctions by facilitating oil sales from Sudan to Malaysia.	**Country:** Japan **Industry Sector:** Commodities

BOUSTEAD HEAVY INDUSTRIES CORPORATION	
Current operations of company in Sudan need to be clarified.	**Country:** Malaysia **Industry Sector:** Oil

TOTAL SA	
Company owns oil block, however, operations are currently inactive.	**Country:** France **Industry Sector:** Oil

KAMAZ	
Company sells trucks, has dealership in Sudan. It is unclear as to whether the company sells military vehicles in Sudan.	**Country:** Russia **Industry Sector:** Automotive

ROLLS ROYCE PLC	
Company has pledged to withdraw from Sudan. Shareholder follow-up and due diligence is needed.	**Country:** UK **Industry Sector:** Oil

SCHLUMBERGER	
Company has pledged to take "Substantial Action". Shareholder follow-up and due diligence is needed.	**Country:** France **Industry Sector:** Oil

ALCATEL-LUCENT	
Company previously had contracts with an oil consortium in Sudan. It is currently unclear how much of the company's current operations benefit general communications as opposed to oil operations.	**Country:** Malaysia **Industry Sector:** Telecomm

SUMATEC RESOURCES BERHAD	
Current operations of company in Sudan need to be clarified.	**Country:** Malaysia **Industry Sector:** Oil

MERCATOR LINES	
Current operations of company in Sudan need to be clarified.	**Country:** India **Industry Sector:** Shipping

UMW HOLDINGS	
Current operations of company in Sudan need to be clarified.	**Country:** Malaysia **Industry Sector:** Oil

Category Three: No Publicly-Traded Equity

The following category of companies represents those businesses that presently demonstrate problematic "highest offender" activity in Sudan, but are either private firms or wholly owned by a government. While these companies do not have any publicly-traded equity that SDTF is aware of at present time, fiduciaries may be exposed to these companies through private placements, corporate bonds, or private equity funds.

The companies in this category are unranked, but most companies below are likely candidates for "highest offender" status if they were public.

AFRICA ENERGY	
	Country: Nigeria **Industry Sector:** Oil

AL-QAHTANI & SONS GROUP OF COMPANIES	
	Country: Saudi Arabia **Industry Sector:** Oil

AL-THANI INVESTMENT	
	Country: United Arab Emirates **Industry Sector:** Oil

ANSAN WIKFS/SHAHER TRADING COMPANY	
	Country: Yemen **Industry Sector:** Oil

APS ENGINEERING COMPANY	
	Country: Italy **Industry Sector:** Oil

ARCADIA PETROLEUM

Country: UK

Industry Sector: Oil

ASCOM GROUP SA

Country: Moldovia

Industry Sector: Oil

CHINA HYDRAULIC AND HYDROELECTRIC CONSTRUCTION GROUP (SINOHYDRO) ***BONDS ISSUED***

Country: China

Industry Sector: Construction

DELTA PETROL/TOWER HOLDINGS

Country: Turkey/Luxembourg

Industry Sector: Oil

DINDIR PETROLEUM/EDGO GROUP

Country: Jordan

Industry Sector: Oil

EXPRESS PETROLEUM AND GAS COMPANY

Country: Nigeria

Industry Sector: Oil

HI TECH PETROLEUM

Country: Sudan

Industry Sector: Oil

K&K CAPITAL GROUP (KKCG)

Country: Czech Republic

Industry Sector: Oil

KUWAIT FOREIGN PETROLEUM EXPLORATION COMPANY (KUFPEC)

Country: Kuwait

Industry Sector: Oil

LAHMEYER

Country: Germany

Industry Sector: Power/Energy

MOHAN ENERGY CORP

Country: India

Industry Sector: Power/Energy

MOTT MACDONALD

Country: UK

Industry Sector: Oil and Power/Energy

PESCHAUD & CIE INTERNATIONAL

Country: France

Industry Sector: Oil

PETROLIN

Country: Gabon

Industry Sector: Oil

PETROSA	
	Country: South Africa **Industry Sector:** Oil

PT PERTAMINA PERSERO (PERTAMINA)	
	Country: Indonesia **Industry Sector:** Oil

SHANDONG ELECTRIC POWER CONSTRUCTION CORPORATION (SHANDONG ELECTRIC POWER GROUP)	
	Country: China **Industry Sector:** Power/Energy

SUDAN PETROLEUM COMPANY (SUDAPET)	
	Country: Sudan **Industry Sector:** Oil

TAMOIL	
	Country: Libya **Industry Sector:** Oil

TRAFIGURA BEHEER	
	Country: Netherlands **Industry Sector:** Oil

VITOL GROUP	
	Country: Switzerland **Industry Sector:** Commodities

ZAVER PETROLEUM COMPANY	
	Country: Pakistan **Industry Sector:** Oil

APPENDIX IV

PSERS AND SERS
CORRESPONDENCE WITH
COMPANIES DOING BUSINESS
WITH SUDAN

SERS' Sudan Divestment Response Tracking Sheet

Company	Date 1st Letter Sent	Date Received	Date 2nd Letter Sent	Date Received
Alstom S.A.	1/30/2007	2/9/2007	n/a	n/a
Bharat Heavy Electricals	1/30/2007	No response	4/2/2007	6/23/2007
PetroChina	1/30/2007	No response	4/2/2007	No response
Petronas	1/30/2007	No response	4/2/2007	No response
Rolls Royce International Limited	1/30/2007	No response	4/2/2007	4/23/2007
Schlumberger	1/30/2007	2/22/2007	n/a	n/a
Sinopec Corp. (China Petroleum and Chemical Corporation)	1/30/2007	No response	4/2/2007	No response
Sinopec Shanghai Petrochemical Company	1/30/2007	No response	4/2/2007	No response

Commonwealth of Pennsylvania
State Employees' Retirement System
30 North Third Street, Suite 150
Harrisburg, Pennsylvania 17101-1716
www.sers.state.pa.us
Executive Office
Telephone: 717-787-9657
FAX: 717-783-7300

January 29, 2007

Mr. Andrew Gould
Chairman and Chief Executive Officer
Schlumberger Limited
153 E. 53rd St., 57th floor
New York, NY 10022-4624

Dear Mr. Gould:

The State Employees' Retirement System is a large institutional investor with an investment in Schlumberger Limited. We write you out of concern over your Company's business activities in Sudan.

Recently, the atrocities and human rights violations occurring in the Darfur region of Sudan have gained national attention and have prompted several states to enact statutes providing for the divestment of companies with business activities in Sudan. Even if not legally required to divest, numerous public pension funds have evaluated, or are planning to evaluate, their investments in companies conducting business in Sudan. To aid us in our evaluation, we would like you to provide us with information regarding Schlumberger Limited's business dealings in Sudan. Specifically, we request that you provide the following:

(1) Describe any and all of your Company's business activities in Sudan including, but not limited to, the duration of such operations; where in Sudan and with whom such operations are conducted; any money paid to the government of Sudan; and any partnerships or other relationships with Sudanese government business entities.

(2) Explain why these business activities are necessary for your Company considering your Company's total business operations.

In addition to providing the above information, we also request that you furnish us written assurances that none of the activities of Schlumberger Limited in Sudan support or aid those who are engaging in atrocities and human rights violations.

For purposes of this letter, "your Company" includes Schlumberger Limited, and any of its subsidiaries, affiliates, joint ventures, partners, associates or any other entity through which your Company does business.

Please send a written response by February 28, 2007.

Sincerely,

Eric Henry
Executive Director

cc: Jean-Francois (JF) Poupeau, Vice President of Communications and Investor Relations, Schlumberger Limited

Commonwealth of Pennsylvania
State Employees' Retirement System
30 North Third Street, Suite 150
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Telephone: 717-787-9657
FAX: 717-783-7300

April 2, 2007

Mr. Jiang Jiemin
President
PetroChina Company Limited
16 Andelu
Dongcheng District
Beijing
The People's Republic of China

Dear Mr. Jiemin:

I am writing to follow-up on my letter to you dated January 29, 2007 (copy enclosed) regarding our concerns over your Company's business activities in Sudan. As I explained in our first letter, the Pennsylvania State Employees' Retirement System is a large institutional investor with an investment in your Company.

We are disappointed that after almost two months, you have not provided any response to my letter. This is to again request that you send a written response to our inquiries as described in the first letter, and to request specifically that you do so by May 4, 2007.

Sincerely,

Eric Henry
Executive Director

cc: Investor Relations, PetroChina Company Limited

ALSTOM

Chairman and Chief Executive Officer

February 5, 2007

Eric Henry
Executive Director
Pennsylvania SERS
30 North Third Street, Suite 150
Harrisburg, Pennsylvania 17101-1716
USA

Dear Sir,

ALSTOM is a global Company that has projects in every part of the World. Indeed, one of these projects is currently being executed in Sudan. This project does not, however, have any connection at all with any terrorist activities or violation of human rights whatsoever. One of the hallmarks of ALSTOM's reputation for integrity is its respect for, and compliance with, those laws, regulations or similar mandatory requirements, that apply to the conduct of its business in all countries in which it operates.

The contract consists in the supply of electro-mechanical equipment for the Merowe Dam project in Sudan. It was awarded by the Ministry of Irrigation and Water Resources of the Republic of Sudan in November 2003 and represents less than 1% of Group sales for fiscal year 2005/06. This project is taking place in the centre of Sudan, around 500 kilometres from the Darfur region. An ALSTOM office was opened in Khartoum to allow the execution of this project.
ALSTOM does not have any investments in Sudan other than the ones that are related to the rented Khartoum office, i.e., for office furniture, cars, or the camp on the Merowe site.
The Group has no license agreements in nor any technical or commercial know-how transfers to Sudan, neither for this High Dam project nor for any other. The current activities are restricted to the execution of the Merowe project and a further Customer Service Activity for rehabilitation of generators and turbines at the Khartoum North Power Plant.
Today ALSTOM has 5 expatriates and about 15 local staff employed by ALSTOM in Sudan. The Group also has several experts working at the Khartoum North Power Plants on an assignment basis for supervision.

The Merowe project contract is totally exempt of any taxes, duties and other fees or charges in Sudan.

ALSTOM

Chairman and Chief Executive Officer

The project is financed by various Arab funds and ALSTOM received direct payments from these funds after approval of the Merowe High Dam Project Implementation Unit (MDPIU), which is now an independent Authority.

Concerning the policies and procedures for operation in Sudan, ALSTOM applies standard Environmental, Health and Security (EHS) procedures, as well as normal operational procedures, that would apply in any equivalent project anywhere. Furthermore, ALSTOM applies the standard regulations for safety, health and evacuation (See ALSTOM's code of Ethics enclosed).

ALSTOM has not done anything directly to promote and protect human rights as the Group is employed by the MDPIU, who is ultimately responsible for such issues. ALSTOM is one of four contractors responsible for the electro-mechanical scope and its implementation, in accordance with its contractual obligations. Lahmeyer International of Germany, who is responsible for overall design and project management, is our interface as they act as the engineering consultant.
However, ALSTOM's policy is to fully comply with the United Nations Universal Declaration of Human Rights.

As the lack of available electrical power is a clear bottle-neck for the economic and social development in the country, the Merowe Dam project marks a milestone in the economic progress of Sudan. On completion, the power generation capacity of the country will be more than doubled to the benefit of the entire population.

Yours sincerely,

Patrick Kron
Chairman & CEO

Stephen Whittaker
Director of Corporate Communications
Schlumberger Limited

42 rue St. Dominique
Paris, 75007
France
+33 1 4062 1308
swhittaker@slb.com

Schlumberger

Mr. Eric Henry
Executive Director
Commonwealth of Pennsylvania State Employees' Retirement System
30 North Third Street, Suite 150
Harrisburg, Pennsylvania, 17101-1716

CONFIDENTIAL TREATMENT REQUESTED

Paris, February 14th 2007

Dear Mr. Henry,

We are writing in reply to your letter of January 29th 2007 regarding Schlumberger Limited ("Schlumberger" or "the Company") business activities in Sudan.

Company Business in Sudan

Schlumberger is an independent oilfield services company supplying technology, project management and information solutions to the international oil and gas industry. Founded in 1927, Schlumberger employs over 70,000 people of more than 140 nationalities working in 80 countries. Schlumberger worldwide revenues in 2006 totalled US$19.23 billion.

Schlumberger has operated in Sudan since 1977, and we currently employ 475 people in the country, of whom 253 are Sudanese. In addition, and consistent with our human resource development program, the Company employs 50 Sudanese university graduates and an additional 40 other qualified Sudanese working in a number of Schlumberger locations outside Sudan gaining valuable international exposure to best business practices. Schlumberger operations in Sudan conform to our highest standards of legal compliance, ethical conduct, equal opportunity, quality, health, safety, and environmental protection

Schlumberger has quantified its business dealings in Sudan and has concluded that it is not material to the overall financial results of the Company. This has been disclosed in our public filings with the U.S. Securities and Exchange Commission since March of 2005.

Schlumberger has various oilfield service contracts with certain joint ventures created by internationally recognized exploration and production entities that operate in Sudan– namely Petronas, ONGC, and CNPC. To the best of our knowledge, these joint venture entities are at least 90 percent owned by the non-Sudanese companies, with the remaining percentages held by the National Oil Company of Sudan. Further, Schlumberger does not own or operate drilling rigs in Sudan and only a very small portion of its business in the country involves the sale of services to state owned enterprises.

Legal and Ethical Compliance Policies and Procedures

As an oilfield services company, our Board of Directors and management team believe that our shareholders and other investors understand and expect that we will pursue sound business opportunities in hydrocarbon-producing countries around the world, provided that we do so lawfully and ethically, and that we proceed in a manner protective of our personnel, assets, reputation, and overall financial condition. The Company's business activities with respect to Sudan are no exception to this business principle.

Schlumberger operations in Sudan are conducted in strict conformance with all applicable laws and the Company's Code of Ethics, which we attach to this letter for your information. As reflected in the Code, all Schlumberger personnel, including those operating in Sudan, are required to conduct themselves, at all times, in a legal and ethical manner. In our view, adherence to these principles in countries such as Sudan ultimately contributes to the rule of law and the advancement of human rights.

Further, Schlumberger takes very seriously its obligations to comply with applicable U.S. sanctions laws and dedicates significant human and financial resources to implementing and enforcing its commitment to compliance. To this end, Schlumberger requires that all its affiliates and U.S. and foreign personnel adhere to a comprehensive U.S. trade controls compliance program. Under this compliance program, "U.S. persons" (as defined under relevant U.S. sanctions regulations) are prohibited from conducting business involving or specifically supporting, approving, or facilitating transactions in or with any country, person, or entity subject to U.S. embargo (absent U.S. government approval). Relevant personnel receive ongoing U.S. sanctions compliance training to ensure that their understanding of the law and the Company's trade control compliance policy and procedures is accurate and up to date.

Management of Risk

We manage our risks in several ways. First, we manage the amount of capital investment in fixed infrastructure to what is necessary to support the operations. These are mostly offices, storage yards and housing for employees. Apart from these, Schlumberger technical equipment is transportable, our personnel are mobile, and both can be easily and quickly redeployed elsewhere. Schlumberger maintains emergency response plans for all business locations, and these plans are kept current in line with changing situations.

Second, we disclose to our shareholders the risks associated with our business. As mentioned earlier, we have previously provided formal notice to our shareholders and the public of the fact that Schlumberger conducts business in Sudan and the relevant risks associated with such business. The following information, which was reviewed by the Securities and Exchange Commission's Office of Global Security Risk, was included in our Form 10-Q for the quarter ended March 31, 2005:

> *Non-U.S. Operations*
> *Schlumberger derives a significant portion of its revenues from non-US operations, which subject Schlumberger to risks that may affect such operations. Non-US Schlumberger operations accounted for approximately 69% of our consolidated revenues the first quarters of both 2005 and 2004. Risks which may adversely affect our operations in such countries include unsettled political and economic conditions in certain areas, exposure to possible expropriation or other governmental actions, social unrest, acts of terrorism, outbreak of war or other armed conflict, deprivation of contract rights, exchange control and currency fluctuation. In addition, we are subject to risks associated with our operations in countries, including Iran, Syria, Sudan and Libya, which are subject to trade,*

economic or other restrictions imposed by the U.S. government. Although it is impossible to predict such occurrences or their effects on Schlumberger, management believes these risks are acceptable. Management also believes that the geographical diversification of our activities reduces the risk that loss of operations in any one country would be material to all the operations taken as a whole.

We wish to point out that, in the time following the filing of our second quarter Form 10-Q on April 28, 2005, which contained the information quoted above concerning our business in jurisdictions subject to U.S. government restrictions, trading in our stock has appeared to be generally in line with our peer group.

Relationships with Other Companies and Advocacy Groups
Schlumberger is an apolitical organization that supports the principles of human rights in the exercise of its business but does not engage in public lobbying. The company believes more in actions than words and is engaged directly in public welfare projects in Sudan, mostly with public education and with improving medical services.

The company is engaged in a variety of projects associated with quality, health and safety in Sudan where areas of specific concern include security, transportation and malaria. In response Schlumberger has instigated journey management procedures, enforced its worldwide driving policies, conducted an external study on driving risk that has led to a mitigation program, and introduced its malaria prevention program. In these regards, Schlumberger has conducted health, safety and environmental program training for its employees and contractors and shared its knowledge on these matters with its customers, partners and local communities.

We believe that this information should give you a clear picture of how we view our role– both in our industry and in Sudan. We consider that the best response to operations in areas of concern is built on adoption and display of worldwide standards of behaviour and performance that equal or exceed any international or national laws, rules or regulations in place.

Thank you for your interest in Schlumberger.

Yours sincerely,

Stephen Whittaker
Director of Corporate Communications
Schlumberger Limited

Attachment (Schlumberger Code of Ethics)

[redacted]

Rolls-Royce

Rolls-Royce plc
65 Buckingham Gate, London SW1E 6AT, England
Telephone: +44 (0) 20 7222 9020
Fax: +44 (0) 20 7227 9170
www.rolls-royce.com

Mr Eric Henry
Executive Director
Commonwealth of Pennsylvania
Public School Employees' Retirement System
30 North Third Street, Suite 150
Harrisburg, Pennsylvania 17101-1716

23 April 2007

Dear Mr Eric Henry

In respect of your letters dated 29 January and 2 April 2007 to Sir John Rose that were passed to me for attention and a written response. Firstly, I would like to apologize for not responding to you sooner.

As you may be aware, given our interests in Sudan, the Company has been monitoring events in the region very closely and we have regularly reviewed our position. Since 1996, Rolls-Royce has been supplying diesel engines and the associated maintenance support which provide power for the pipeline which carries oil from the interior of the country to Port Sudan. Our operations in Sudan do not and never have extended into the Darfur region. The Company has 94 diesel engines in operation within Sudan, this would compare with a global installed base of more than 54,000 engines across all of our businesses.

The Company judged that this business contributed to the overall economic development in Sudan and our operations have throughout been undertaken in strict accordance with UK Government guidelines and regulations for doing business in the region. However, in view of the increasing international humanitarian concerns about the situation in Darfur, the Company has recently reviewed its position and has decided that it should discontinue its business in Sudan. Rolls-Royce will immediately cease to pursue any new business in that country and will progressively withdraw from support activities under previously signed contracts.

Rolls-Royce believes that this is a responsible line to adopt in the current circumstances.

I hope that this letter covers all of your questions and concerns but please do contact me directly if you require any further information.

M. Aflatt

Mark Alflatt
Director of Financial Communications

रवीन्द्र के. बेलापुरकर
कार्यपालक निदेशक (पी. एंड डी.)
Ravindra K. Belapurkar
Executive Director (P&D)

...VED
EXECUTIVE OFFICE
STAFF EMPLOYEES' ...SYSTEM

2007 JUL 23 P 3:08

भारत हेवी इलेक्ट्रिकल्स लिमिटेड
Bharat Heavy Electricals Limited

June 27, 2007

Dear Sir,

This is with reference to your letter(s) dated 29.01.07 and 02.04.07 regarding BHEL's business activities in Sudan. While we earnestly thank you for your kind confidence and interest in BHEL, we would like to assure that BHEL is fully sensitive to the issues raised in your letter. You may perhaps be aware that BHEL is a majority owned company by the Government of India and the Company functions within the legal and regulatory parameters laid down by the Government of India. BHEL's power plant business through development of utility power infrastructure facilitates social development which in turn helps economic growth. This serves to promote the interest of humanity, particularly the deprived and needy population in India and other developing economies. BHEL is also a signatory to UN Global Compact and adheres to the principles enshrined there under.

We would like to submit the following information with regard to BHEL activities in Sudan. You would kindly note that the activities are consistent with the objectives of social development without any discrimination:

1. BHEL as part of its international business is setting up a power plant of 500 MW capacity in Kosti, Sudan. The plant will provide electricity to all the regions of the country, once it starts generating power. This Power Plant will light up millions of homes, which should facilitate the peace process set in motion between North and South Sudan under the auspices of International Organisations. Further, the power generated will also be utilised for irrigation needs, thereby helping boost agricultural output and meet food needs of people of all the regions alike. Therefore, the project being set up by BHEL could be one of the steps in the direction of creating harmony and peace.

2. The project to be implemented by BHEL is being set up with funding support by Government of India. A project of this size should bring employment and prosperity and enhance economic activity in that region. It is believed that the project which has the approval of Government of India would improve the conditions of Sudan. We would like to reiterate that BHEL management is fully committed to promoting harmony and providing support to the needy while working within the laws and policy directives of the Government of India.

"बीएचईएल हाउस" सिरी फोर्ट, नई दिल्ली – 110049 दूरभाष (का) 26001061, 26001010 विस्तार 2521, फेक्स (011) 26001104, 26001073
"BHEL HOUSE" Siri Fort, New Delhi-110049 Phone (O) 26001061, 26001010 Extn. 2521, Fax (011) 26001104, 26001073

Further, as required by State Employees' Retirement System, Commonwealth of Pennsylvania, we would like to assure you that none of the identified activities of Bharat Heavy Electricals Limited in Sudan support or aid those who are engaging in atrocities and human rights violation.

We do hope that the above points clarify all the issues contained in your letter. For further clarifications, if any, you may feel free to contact us.

With regards,

Yours sincerely,

(Ravindra K. Belapurkar)

Mr Eric Henry
Executive Director
State Employees' Retirement System
Commonwealth of Pennsylvania
30 North Third Street
Suite 150
Harrisburg
Pennsylvania
717 - 783 - 7300

PSERB Resolution 2006-62
Re: Sudan Investments
September 15, 2006

WHEREAS, The members of Public School Employees' Retirement Board (PSERB) are deeply concerned with atrocities and human rights violations that have been occurring in Sudan, most particularly in the Darfur region of that country and;

WHEREAS, The members of the PSERB are also concerned, as fiduciaries, about the potential impact that the events in the Sudan may have on the value of those portfolio companies held by the PSERB that have significant business or financial dealings in the Sudan.

RESOLVED, That the PSERB, consistent with its fiduciary duties, supports the efforts of institutional investors, including the Public School Employees' Retirement System (PSERS), that urge the government of the United States and particularly the Department of State, Department of Commerce, Department of Treasury, and Securities and Exchange Commission, to compile and publish a list of companies with business dealings with, or operations in, Sudan which might be supporting the atrocities and human rights violations in Sudan; and

FURTHER RESOLVED, That the PSERB, consistent with its fiduciary duties, directs PSERS' Staff to constructively engage in conversation with those portfolio companies held by the PSERB that are identified as doing business in Sudan, if any, to consider whether it is necessary for the company to be doing business in Sudan and, if so, to provide PSERS written assurance that its activities do not support or aid those who are engaging in atrocities and human rights violations.

PSERS' Sudan Divestment
Response Tracking Sheet

Company	Date 1st Letter Sent	Date Response Received	Date 2nd Ltr Sent	Date Response Received	Companies w/Operations in Sudan	Companies w/Potential Operations in Sudan	Companies w/No Operations in Sudan
ABB Ltd.	1/31/2007	no response	3/27/2007	4/11/2007			Swiss engineering & electricity company - no new business, reviewing existing contracts
Alcatel SA (2)	1/31/2007	2/16/2007	n/a	n/a	telecommunications - claim to help Sudanese citizens' communications; has contracts with Petrodar and Sudatel, Sudatel is 26% owned by Sudan gov't		
Alstom S.A. (1)	1/31/2007	3/6/2007	n/a	n/a	Merowe Dam project; claim Dam key to economic development and provide services for other plants; deny responsibility for human rights in connection with Dam; should be main contractor's responsibility		

AMEC	1/31/2007	2/8/2007	n/a	n/a			sold off construction/ project mgt, engineering
Bharat Heavy Electricals (1)	1/31/2007	no response	3/27/2007	4/19/2007 and 6/24/07	power plant construction; will benefit population; Bharat is majority owned by the Indian gov't; and funding for projects by Indian govt; does not aid those committing attrocities; Task Force concerned with relationship between India and Sudan		
Cummins Inc. (2)	1/31/2007	2/21/2007	n/a	n/a			banned sales of vehicle engines & generators for Sudan; no operations
Electricity Generating Company, PLC (EGCO) (1)	1/31/2007	3/22/2007	n/a	n/a	power plant services; language in letter suggests EGCO will reduce investments or divest in Sudan		

Harbin Power Equipment (1)	1/31/2007	no response	3/27/2007	5/14/2007		Design and construction of power plant projects, working on Merowe Dam project, feels they are improving economic development	
Lundin AB (1)	1/31/2007	2/23/2007	n/a	n/a		Swedish oil co. w/an interest in potential oil producing land	
Nippon Yusen Kaisha (NYK Line) (2)	1/31/2007	3/9/2007	n/a	n/a			minimal ocean transportation services, including for human rights organizations
Oil and Natural Gas Co. Ltd. (1)	1/31/2007	no response	3/27/2007	no response			
PetroChina (1)	1/31/2007	no response	3/27/2007	no response			
Petrobras (2)	1/31/2007	3/1/2007	n/a	n/a			Brazilian oil company - no business activities

Petrofac (1)	1/31/2007	3/26/2007	n/a	n/a	contract for power plant and pipeline facilities maintenance and associated services for 3-4 yr. worth $40 million; claim to comply with laws		
Petronas (1)	1/31/2007	no response	3/27/2007	no response			
Reliance Communications	1/31/2007	no response	3/27/2007	no response			
Reliance Energy	1/31/2007	2/16/2007	n/a	n/a			break-off of Reliance Industries - no business activities
Reliance Industries (1)	1/31/2007	2/16/2007	3/27/2007	4/5/2007			Indian oil & gas company - claim no operating or construction contracts
Rolls Royce International Limited (2)	1/31/2007	no response	3/27/2007	5/1/2007			discontinuing business in Sudan
Schlumberger (2)	1/31/2007	no response	3/27/2007	4/27/2007	oil field services, but claim no drilling rigs; unapologetic		
Siemens AG	1/31/2007	no response	3/27/2007	no response			

PSERS' Sudan Divestment
Response Tracking Sheet

Sinopec Corp. (China Petroleum and Chemical Corporation) (1)	1/31/2007	no response	3/27/2007	no response			
Total SA (2)	1/31/2007	2/22/2007	n/a	n/a		French oil co. w/an interest in potential oil producing land	

Total # of Companies Responding	17
Total # of Companies Not Responding	6

<u>Responding Companies</u>

Responding Companies w/No Operations	8
Responding Companies w/Potential Operations	3
Responding Companies w/Operations	6-All claim no involvement in atrocities and help population.

<u>Sudan Divestment Task Force</u>

(1) Divestment Target	11 (includes 1 claiming no activity)
(2) Ongoing Engagement	7 (includes 4 claiming no activity)
No rating	5 (includes 3 claiming no activity)

8/14/2007

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

JEFFREY B. CLAY
Executive Director
Telephone: 717-720-4749
FAX: 717-772-5372

January 31, 2007

Tim Solso
Chairman and CEO
Cummins Inc.
PO Box 3005
Columbus, IN 47202-3005

Dear Mr. Solso:

The Public School Employees' Retirement System Board (PSERB) manages a $62 billion pension fund and is a major institutional investor. As a shareholder in Cummins Inc., we write you out of concern over Cummins Inc.'s alleged or actual business activities in Sudan.

Recently, the atrocities and human rights violations occurring in the Darfur region of Sudan have gained national attention and have prompted a growing number of states to enact statutes providing for the divestment of companies with business activities in Sudan. Even if not legally required to divest, an increasing number of institutional investors, including PSERB, are evaluating their investments in companies conducting business in Sudan from the standpoint of a shareholder concerned about the potential risk of such investments.

To that end, on September 15, 2006, PSERB adopted a resolution regarding its investments in companies conducting business in Sudan, a copy of which is enclosed. The resolution was based not only upon the concern for the atrocities and human rights violations taking place in Sudan, but also out of the apprehension that those events could significantly affect the value of PSERB investments in companies doing business in Sudan. To assess the possible risk associated with Cummins Inc.'s business activities in Sudan, PSERB is requesting information relating to the following:

(1) Describe any and all of Cummins Inc.'s business activities in Sudan, if any, including, but not limited to, the duration of such operations; the location of those operations in Sudan and with whom such operations are conducted. Specifically note any money paid to the government of Sudan and any partnerships or other relationships with Sudanese government business entities.

(2) Explain why such business activities are necessary for Cummins Inc. considering its total business operations.

In addition to providing the above information, PSERB also requests that you furnish us written assurances that none of the identified activities of Cummins Inc. in Sudan support or aid those who are engaging in atrocities and human rights violations.

For purposes of this letter, Cummins Inc. includes any of its subsidiaries, affiliates, joint ventures, partners, associates or any other entity through which Cummins Inc. does business.

Please send a written response within 30 days of the date of this letter. Thank you.

Sincerely,

Jeffrey B. Clay
Executive Director

Enclosure

cc: Investor Relations, Cummins Inc.

Stephen Whittaker
Director of Corporate Communications
Schlumberger Limited

42 rue St. Dominique
Paris, 75007
France
+33 1 4062 1308
swhittaker@slb.com

Schlumberger

Mr. Jeffrey B. Clay
Executive Director
Commonwealth of Pennsylvania Public School Employees' Retirement System
5 North Fifth Street, PO Box 125
Harrisburg, Pennsylvania, 17108-0125

CONFIDENTIAL TREATMENT REQUESTED

Paris, February 14th 2007

Dear Mr. Clay,

We are writing in reply to your letter of January 31st 2007 regarding Schlumberger Limited ("Schlumberger" or "the Company") business activities in Sudan.

Company Business in Sudan
Schlumberger is an independent oilfield services company supplying technology, project management and information solutions to the international oil and gas industry. Founded in 1927, Schlumberger employs over 70,000 people of more than 140 nationalities working in 80 countries. Schlumberger worldwide revenues in 2006 totalled US$19.23 billion.

Schlumberger has operated in Sudan since 1977, and we currently employ 475 people in the country, of whom 253 are Sudanese. In addition, and consistent with our human resource development program, the Company employs 50 Sudanese university graduates and an additional 40 other qualified Sudanese working in a number of Schlumberger locations outside Sudan gaining valuable international exposure to best business practices. Schlumberger operations in Sudan conform to our highest standards of legal compliance, ethical conduct, equal opportunity, quality, health, safety, and environmental protection

Schlumberger has quantified its business dealings in Sudan and has concluded that it is not material to the overall financial results of the Company. This has been disclosed in our public filings with the U.S. Securities and Exchange Commission since March of 2005.

Schlumberger has various oilfield service contracts with certain joint ventures created by internationally recognized exploration and production entities that operate in Sudan– namely Petronas, ONGC, and CNPC. To the best of our knowledge, these joint venture entities are at least 90 percent owned by the non-Sudanese companies, with the remaining percentages held by the National Oil Company of Sudan. Further, Schlumberger does not own or operate drilling rigs in Sudan and only a very small portion of its business in the country involves the sale of services to state owned enterprises.

Legal and Ethical Compliance Policies and Procedures
As an oilfield services company, our Board of Directors and management team believe that our shareholders and other investors understand and expect that we will pursue sound business opportunities in hydrocarbon-producing countries around the world, provided that we do so lawfully and ethically, and that we proceed in a manner protective of our personnel, assets, reputation, and overall financial condition. The Company's business activities with respect to Sudan are no exception to this business principle.

Schlumberger operations in Sudan are conducted in strict conformance with all applicable laws and the Company's Code of Ethics, which we attach to this letter for your information. As reflected in the Code, all Schlumberger personnel, including those operating in Sudan, are required to conduct themselves, at all times, in a legal and ethical manner. In our view, adherence to these principles in countries such as Sudan ultimately contributes to the rule of law and the advancement of human rights.

Further, Schlumberger takes very seriously its obligations to comply with applicable U.S. sanctions laws and dedicates significant human and financial resources to implementing and enforcing its commitment to compliance. To this end, Schlumberger requires that all its affiliates and U.S. and foreign personnel adhere to a comprehensive U.S. trade controls compliance program. Under this compliance program, "U.S. persons" (as defined under relevant U.S. sanctions regulations) are prohibited from conducting business involving or specifically supporting, approving, or facilitating transactions in or with any country, person, or entity subject to U.S. embargo (absent U.S. government approval). Relevant personnel receive ongoing U.S. sanctions compliance training to ensure that their understanding of the law and the Company's trade control compliance policy and procedures is accurate and up to date.

Management of Risk
We manage our risks in several ways. First, we manage the amount of capital investment in fixed infrastructure to what is necessary to support the operations. These are mostly offices, storage yards and housing for employees. Apart from these, Schlumberger technical equipment is transportable, our personnel are mobile, and both can be easily and quickly redeployed elsewhere. Schlumberger maintains emergency response plans for all business locations, and these plans are kept current in line with changing situations.

Second, we disclose to our shareholders the risks associated with our business. As mentioned earlier, we have previously provided formal notice to our shareholders and the public of the fact that Schlumberger conducts business in Sudan and the relevant risks associated with such business. The following information, which was reviewed by the Securities and Exchange Commission's Office of Global Security Risk, was included in our Form 10-Q for the quarter ended March 31, 2005:

> *Non-U.S. Operations*
> *Schlumberger derives a significant portion of its revenues from non-US operations, which subject Schlumberger to risks that may affect such operations. Non-US Schlumberger operations accounted for approximately 69% of our consolidated revenues the first quarters of both 2005 and 2004. Risks which may adversely affect our operations in such countries include unsettled political and economic conditions in certain areas, exposure to possible expropriation or other governmental actions, social unrest, acts of terrorism, outbreak of war or other armed conflict, deprivation of contract rights, exchange control and currency fluctuation. In addition, we are subject to risks associated with our operations in countries, including Iran, Syria, Sudan and Libya, which are subject to trade,*

economic or other restrictions imposed by the U.S. government. Although it is impossible to predict such occurrences or their effects on Schlumberger, management believes these risks are acceptable. Management also believes that the geographical diversification of our activities reduces the risk that loss of operations in any one country would be material to all the operations taken as a whole.

We wish to point out that, in the time following the filing of our second quarter Form 10-Q on April 28, 2005, which contained the information quoted above concerning our business in jurisdictions subject to U.S. government restrictions, trading in our stock has appeared to be generally in line with our peer group.

Relationships with Other Companies and Advocacy Groups
Schlumberger is an apolitical organization that supports the principles of human rights in the exercise of its business but does not engage in public lobbying. The company believes more in actions than words and is engaged directly in public welfare projects in Sudan, mostly with public education and with improving medical services.

The company is engaged in a variety of projects associated with quality, health and safety in Sudan where areas of specific concern include security, transportation and malaria. In response Schlumberger has instigated journey management procedures, enforced its worldwide driving policies, conducted an external study on driving risk that has led to a mitigation program, and introduced its malaria prevention program. In these regards, Schlumberger has conducted health, safety and environmental program training for its employees and contractors and shared its knowledge on these matters with its customers, partners and local communities.

We believe that this information should give you a clear picture of how we view our role–both in our industry and in Sudan. We consider that the best response to operations in areas of concern is built on adoption and display of worldwide standards of behaviour and performance that equal or exceed any international or national laws, rules or regulations in place.

Thank you for your interest in Schlumberger.

Yours sincerely,

Stephen Whittaker
Director of Corporate Communications
Schlumberger Limited

Attachment (Schlumberger Code of Ethics)

TOTAL P.004

哈尔滨动力设备股份有限公司
Harbin Power Equipment Company Limited

To Whom It May Concern,

Thank you for your letter. We pay close attention to this matter. I am glad to reply the questions in your letter as follow:

As one of the subsidiaries of Harbin Power Equipment Co. Ltd (hereinafter referred to as HPEC), Harbin Power Engineering Co., Ltd (hereinafter referred to as HPE) now has been working in Sudan as a EPC Contractor to design, procurement and construction the power projects on turn-key basis since 2001. The Power Projects constructed by HPE are generating and transmiting and distributing the electricity to the towns and countries continuously in the North of Sudan.

Till now HPE has not involved any project in the Darfur Areas in Sudan. The Only relationship with Sudan Government of HPE is the contractual relationship.

Considering the weakness of infrastructures is the bottleneck to its economic development in Sudan, it is the critical task of promoting the developing the infrastructure facilities to construct much more power projects in Sudan. Therefore, these power projects in Sudan constructed by HPE increased the utilization of industrial, agricultural and civil power, promoted the economic development of Sudan, provided conditions for agricultural irrigation in drainage area along the Nile River, and improved the living standard of people in urban and rural areas in the North of Sudan. Among these power projects of HPE, the Merowe Transmission and Transformation Power Project will improve the situation of scarce or no power in spacious area of north Sudan and able to propel the economic development of Sudan.

In Sudan, HPE not only engaged development of power projects, but also pursued some activities in charity according to the economic conditions of related areas of Sudan, including donations of money and living commodities to the poverty, providing the facility of water supply to the local residents by digging eight (8) wells, establishment the schools for the local children for their receiving the appropriate education, etc. What have done by HPE in Sudan has won the praise of local people in the North of Sudan.

During construction of El-Gaili Power Station I and Merowe Transmission and Transformation Power Project, local residents have been to the site for visit for many gratitude to contribution of HPE to economic development of Sudan and to more brightness brought for Sudanese.

In recent years, the national economy of Sudan has made great progress, various economic indices have increased to different extents, especially the electric market implies lots of opportunities and potentials. Nowadays HPE is trying its best to construct more power projects in Sudan to make more contributions to aid the people of Sudan to improve their living standard.

We promise, our company are doing normal business activities, have not and will not support or help those people engaged in the atrocities and human rights violations.

Thanks again for your supports to HPEC at all times, your comments and suggestion are highly appreciated by us.

Yours Sincerely,

President

HARBIN POWER EQUIPMENT CO.LTD.

Guarantee

Public School Employees' Retirement System Board (PSERB):

Our company is a Chinese company listed in Hong Kong, which is engaged in power equipment manufacture .We developed business activities in Sudan by HPE. I am glad to promise about questions in your letter as follow:

Our company and our subsidiary company HPE are doing normal business activities, have not and will not support or help those people engaged in the atrocities and human rights violations

Harbin Power Equipment Company Ltd.
March 28, 2007

Rolls-Royce

Rolls-Royce plc
65 Buckingham Gate, London SW1E 6AT, England
Telephone: +44 (0) 20 7222 9020
Fax: +44 (0) 20 7227 9170
www.rolls-royce.com

RECEIVED PSERS
MAY 1 2007
EXECUTIVE OFFICE

Mr Jeffrey B. Clay
Executive Director
Commonwealth of Pennsylvania
Public School Employees' Retirement System
5 North Fifth Street, PO Box 125
Harrisburg, Pennsylvania 17108-0125

23 April 2007

Dear Mr Clay

In respect of your letters dated 31 January and 27 March 2007 to Sir John Rose that were passed to me for attention and a written response. Firstly, I would like to apologize for not responding to you sooner.

As you may be aware, given our interests in Sudan, the Company has been monitoring events in the region very closely and we have regularly reviewed our position. Since 1996, Rolls-Royce has been supplying diesel engines and the associated maintenance support which provide power for the pipeline which carries oil from the interior of the country to Port Sudan. Our operations in Sudan do not and never have extended into the Darfur region. The Company has 94 diesel engines in operation within Sudan, this would compare with a global installed base of more than 54,000 engines across all of our businesses.

The Company judged that this business contributed to the overall economic development in Sudan and our operations have throughout been undertaken in strict accordance with UK Government guidelines and regulations for doing business in the region. However, in view of the increasing international humanitarian concerns about the situation in Darfur, the Company has recently reviewed its position and has decided that it should discontinue its business in Sudan. Rolls-Royce will immediately cease to pursue any new business in that country and will progressively withdraw from support activities under previously signed contracts.

Rolls-Royce believes that this is a responsible line to adopt in the current circumstances.

I hope that this letter covers all of your questions and concerns but please do contact me directly if you require any further information.

M. Alflatt

Mark Alflatt
Director of Financial Communications

रवीन्द्र के. बेलापुरकर
कार्यपालक निदेशक (पी. एंड डी.)
Ravindra K. Belapurkar
Executive Director (P&D)

भारत हेवी इलेक्ट्रिकल्स लिमिटेड
Bharat Heavy Electricals Limited

बी एच ई एल
BHEL

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EXECUTIVE OFFICE

LEGAL OFFICE JUL 24 2007

June 27, 2007

Dear Sir,

This is with reference to your letter(s) dated 31.01.07 and 27.03.07 regarding BHEL's business activities in Sudan. While we earnestly thank you for your kind confidence and interest in BHEL, we would like to assure that BHEL is fully sensitive to the issues raised in your letter. You may perhaps be aware that BHEL is a majority owned company by the Government of India and the Company functions within the legal and regulatory parameters laid down by the Government of India. BHEL's power plant business through development of utility power infrastructure facilitates social development which in turn helps economic growth. This serves to promote the interest of humanity, particularly the deprived and needy population in India and other developing economies. BHEL is also a signatory to UN Global Compact and adheres to the principles enshrined there under.

We would like to submit the following information with regard to BHEL activities in Sudan. You would kindly note that the activities are consistent with the objectives of social development without any discrimination:

1. BHEL as part of its international business is setting up a power plant of 500 MW capacity in Kosti, Sudan. The plant will provide electricity to all the regions of the country, once it starts generating power. This Power Plant will light up millions of homes, which should facilitate the peace process set in motion between North and South Sudan under the auspices of International Organisations. Further, the power generated will also be utilised for irrigation needs, thereby helping boost agricultural output and meet food needs of people of all the regions alike. Therefore, the project being set up by BHEL could be one of the steps in the direction of creating harmony and peace.

2. The project to be implemented by BHEL is being set up with funding support by Government of India. A project of this size should bring employment and prosperity and enhance economic activity in that region. It is believed that the project which has the approval of Government of India would improve the conditions of Sudan. We would like to reiterate that BHEL management is fully committed to promoting harmony and providing support to the needy while working within the laws and policy directives of the Government of India.

Further, as required by Public School Employees' Retirement System Board, we would like to assure you that none of the identified activities of Bharat Heavy Electricals Limited in Sudan support or aid those who are engaging in atrocities and human rights violation.

We do hope that the above points clarify all the issues contained in your letter. For further clarifications, if any, you may feel free to contact us.

With regards,

Yours sincerely,

(Ravindra K. Belapurkar)

Mr. Jeffrey B. Clay
Executive Director
Public School Employees' Retirement System Board
Commonwealth of Pennsylvania
5 North Street
PO Box 125
Harrisburg
Pennsylvania
17108 - 0125

बी. प्रसाद राव
महाप्रबंधक (यो. एवं वि.)
B.P. RAO
General Manager (P&D)

भारत हेवी इलेक्ट्रिकल्स लिमिटेड
Bharat Heavy Electricals Limited
कॉरपोरेट योजना एवं विकास
Corporate Planning & Development
बी एच ई एल
BHEL

April 6, 2007

Dear Mr. Jaffrey Clay,

This is with reference to your letters dated 31st January 2007 and 27th March 2007 regarding BHEL's business activities in Sudan. While we earnestly thank you for your kind confidence and interest in BHEL, we would like to assure that BHEL is fully sensitive to the issues raised in your letter. You may perhaps be aware that BHEL is a majority owned company by the Government of India and the Company functions within the legal and regulatory parameters laid down by the Government of India. BHEL's power plant business through development of utility power infrastructure, facilitates social development which in turn help economic growth. This serves to promote the interest of humanity particularly to the deprived and needy population in India and similarly in other developing economies. BHEL is also a signatory to UN Global Compact and adheres to the principles enshrined under UN Global Compact.

We would like to submit the following information with regard to BHEL activities in Sudan. You would kindly note that the activities are consistent with the objectives of the social development without any discrimination.

1. BHEL as part of its international business is setting up a power plant of 500 MW capacity in Kosti, Sudan. The plant will provide electricity to all the regions of the country, once it starts generating power. This Power Plant will light up millions of homes, which should facilitate the peace process set in motion between North and South of Sudan under the auspices of International Organisations. Therefore, the project being set up by BHEL could be one of the steps in the direction of creating harmony and peace.

2. The project to be implemented by BHEL is being set up with funding support by Government of India. A project of this size should bring employment and prosperity and enhance economic activity in that region. It is believed that the project which has the approval of Government of India would improve the conditions of Sudan. We would like to reiterate that BHEL management is fully committed to promoting harmony and providing support to the needy while working within the laws and policy directives of the Government of India.

Further, as required by PSERB, we would like to assure you that none of the identified activities of Bharat Heavy Electricals Limited in Sudan support or aid those who are engaging in atrocities and human rights violation.

We do hope that the above points clarify all the issues contained in your letter. For further clarifications, if any, you may feel free to contact us.

Yours sincerely,

RaoBP

(BP Rao)

Mr. Jeffrey B. Clay
Executive Director
Commonwealth of Pennsylvania
Public School Employees' Retirement System
5 North 5th Street, PO Box 125
Harrisburg
Pennysylvania 17108-0125

ABB

Zurich, Switzerland – March 30, 2007

Mr. Jeffrey B. Clay
Executive Director
Commonwealth of Pennsylvania
Public School Employees' Retirement System
5 North 5th Street
Harrisburg, Pennsylvania, 17108-0125
United States of America

Dear Mr Clay,

Thank you for your letter of January 31, 2007 to our CEO Fred Kindle. At the start of 2007, ABB announced the suspension of business activities in Sudan. This means that no new business is being taken in the country, and we are reviewing existing contracts on a case by case basis. Despite this decision, ABB is continuing its humanitarian work in the country.

If you need any further information, please do not hesitate to ask me.

Sincerely,

R. Popper

Ron Popper
Head of Corporate Responsibility
ABB Ltd.

Postal Address
PO Box 8131
CH-8050 Zurich, Switzerland

Telephone
+41 43 317 7111

Email:
ron.popper@ch.abb.com

Web address
www.abb.com

Petrofac

20 March 2007

J B Clay
Executive Director
The Public School Employees' Retirement System
5 North 5th Street
PO Box 125
Harrisburg
Pennsylvania
17108-0125

Dear Mr Clay

Thank you for your letter dated 31 January 2007. Please accept my apologies for the delay in replying.

Petrofac is engaged in the design, build and operation of oil & gas infrastructure with a focus on some of the world's key hydrocarbon regions, in particular the Middle East, Caspian, North and West Africa, Asia and the Far East and the UK Continental Shelf (UKCS). Through our Operations Services division, we provide facilities management and training services, predominantly to asset owners in the UKCS but increasingly to other regions, including Dubai, Kuwait, Iran and Sudan.

Our current activity in Sudan comprises a contract with Greater Nile Petroleum Operating Company (GNPOC), entered into in 2003, to provide power plant and pipeline facilities maintenance and associated services. GNPOC is a joint operating company owned by CNPC of China (40%), PETRONAS of Malaysia (30%), ONGC of India (25%) and SUDAPET of Sudan (5%).

The scope of Petrofac's contract with GNPOC currently includes routine maintenance, breakdown, overhaul and support requirements to ensure the availability of pumping and metering equipment to produce and export Sudan's oil. Petrofac's geographic remit stretches from the wetlands of the Muglad Basin in the south of Sudan through the desert to Port Sudan on the Red Sea. Operations are supported by around one hundred Sudanese and expatriate staff. The revenue anticipated to arise under this contract during the current financial year amounts to less than 1% of Petrofac's consolidated revenue (2006: US$1.9 billion).

As a core part of our values, Petrofac always seeks to work with and contribute to the communities in which it operates. In Sudan, during 2006, we helped to fund and build a classroom at Al Shawa primary school (two and a half hours North of Khartoum) and provide computers and training to educational institutions in the Sudanese capital.

Our Code of Business Conduct states that we aim always to comply with governmental laws, rules and regulations. Our operations in Sudan are conducted in accordance with this policy and in accordance with the relevant provisions of international law.

I hope that this assists you in consideration of your obligations as a responsible investor and that you will remain a supportive shareholder of Petrofac.

Please do not hesitate to write should you require any further assistance.

Yours sincerely

Ayman Asfari
Group Chief Executive

EGCO
บริษัท ผลิตไฟฟ้า จำกัด (มหาชน)
ELECTRICITY GENERATING PUBLIC COMPANY LIMITED

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EXECUTIVE OFFICE

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3 P.S.E.R.S.

No. EGCO 300/167

March 13, 2007

Jeffrey B. Clay, Executive Director
Public School Employees' Retirement System
5 North 5th Street, PO Box 125
Harrisburg, Pennsylvania 17108-0125.

Dear Sir:

With reference to your letter dated January 31, 2007 regarding the requested information of our business activities in Sudan.

We would like to inform you that our business in Sudan consists of:

1) ESCO, a 100% owned subsidiary company of EGCO, has worked with National Electricity Corporation, a 100% owned by the government of Sudan, in order to provides O&M (operation and maintenance) services to El Gaili Power plant which is located on the north of Khartoum, the capital of Sudan. The contract term is 1 year period.

2) ESCO also supplies spare parts for El Gaili Power plant and Khartoum North Power Station. ESCO ensure that its services in Sudan will not involve with any weapons factories or military propose.

Currently, our investment policy is to reduce or divest such an investment since our investors concern on the atrocities and human rights violations in Sudan.

Yours sincerely,

Jiraporn R.

Jiraporn Rungsrithong
Investor Relations Manager

Investor Relations
Tel. 662-998-5131

NYK LINE
NIPPON YUSEN KAISHA
Founded 1885
Postal Address: C. P. O. Box 1250, Tokyo 100-8613, Japan
http://www.nykline.co.jp

RECEIVED
PSERS
MAR 19 2007
EXECUTIVE OFFICE

Mr. Jeffrey B. Clay **March 9th, 2007**
Executive Director
Commonwealth of Pennsylvania
Public School Employees' Retirement System

Dear Mr. Jeffrey B. Clay:

I write in response to your letter dated January 31, 2007.

Nippon Yusen Kabushiki Kaisha, its consolidated subsidiaries and affiliates (collectively "NYK") takes seriously its role as a commercial enterprise and corporate citizen. As is expressly stated in our "Business Credo," NYK believes that conducting business in compliance with a code of social ethics including respect for human rights is critical to its success as both a commercial enterprise and a corporate citizen. As such, we share the concerns expressed in your January 31 correspondence. We have endeavored to provide information addressing those concerns herein.

Based on an internal review of business activities related to Sudan, NYK does not engage in business activities within Sudan. To the best of its knowledge, NYK does not provide any direct assistance to the Sudan government or any entities owned or controlled by the Sudan government. In addition, our internal review has thus far indicated that none of our customers is a Sudanese entity.

NYK, in general, provides not only transportation services covering ocean, land and air, but also logistics services such as forwarding, warehousing, etc. However, as for business related to Sudan, the service NYK provides is limited to ocean transportation to that country and the amount of such service is very small or almost negligible. We estimate that the revenue earned from our services related to Sudan was approximately 0.1 percent of NYK's total revenue for the fiscal year ended March 31, 2006, and such level is expected to remain same for this fiscal year.

As part of our efforts to help provide humanitarian assistance to the people of Sudan, NYK has actively provided ocean transportation services to international institutions such as the United Nations (including UNICEF, FAO), World Food Program and the Red Cross. Thus, we believe that our current activities in providing ocean transportation service to customers who ship their cargo to Sudan, are consistent with the guiding principles and corporate policies of NYK described in our answer to your questions.

We have provided more detailed information below in response to the specific questions raised in your letter of January 31, 2007.

(1) Describe any and all of NYK LINE's business activities in Sudan, if any, including, but not limited to, the duration of such operations; the location of those operations in Sudan and with whom such operations are conducted. Specifically note any money paid to the government of Sudan and any partnerships or other relationships with Sudanese government business entities.

As stated above, NYK does not engage in business activities within Sudan. NYK provides ocean transportation service to Sudan for its customers, but to a very small or almost negligible extent. The only Sudanese company we work with is an independent steamship agent, "a private sector" company, who takes custody of cargo for delivery to consignees. To the best of our knowledge, the steamship agent is not controlled or owned by the Sudan government. Although reimbursement for port charges paid to port authorities by the steamship agent is included as part of the charges to NYK, such reimbursement is usually used only to maintain the port facilities.

(2) Explain why such business activities are necessary for NYK LINE considering its total business operations.

"NYK Group Mission Statement" define that our mission is to contribute to the betterment of societies throughout the world by providing comprehensive global-logistics services to our customers. We will always do our best to meet our customers' requirements, subject, of course, to them complying with applicable laws and regulations.

In addition to our Group Mission Statement, we also conduct our business activities in compliance with "NYK Line Business Credo", in which it states "We believe that we can best contribute to the sustainable growth of international society by respecting human rights, complying with all relevant laws, and conducting business in compliance with a code of social ethics".

As the characteristic of our business, being merely transportation, we are not able to advise or assure you who and how the products that we have transported to Sudan are used or consumed in the country. However, in order to meet with our Business Credo, referred above, we are closely monitoring the commodities that we transport to Sudan, making sure that we are not transporting any products for apparent military use. We also check if they are not, to the best of our knowledge, consigned to Sudanese government or any entities owned or controlled by the Sudan government. In addition, our internal review has thus far indicated that none of our customers is a Sudanese entity.

* * *

As described above, the Company takes seriously its role as a corporate citizen. We share the concerns of PSERB regarding the conditions in Sudan and appreciate your interest in business activities relating to that country. Attached are the "NYK Group Mission Statement" and the "NYK Line Business Credo." Please also note that NYK participates in the U.N. Global Compact.

Please do not hesitate to contact us if you have further questions regarding NYK.

Sincerely,

Makoto Igarashi
Managing Corporate Officer
Nippon Yusen Kabushiki Kaisha

ALSTOM

Chairman and Chief Executive Officer

RECEIVED
PSERS
MAR 6 2007
EXECUTIVE OFFICE

February 26, 2007

Jeffrey B. Clay
Public School Employees' Retirement System
5 North 5th Street
PO Box 125
Harrisburg, Pennsylvania 17108-0125
USA

Dear Sir,

ALSTOM is a global Company that has projects in every part of the World. Indeed, one of these projects is currently being executed in Sudan. This project does not, however, have any connection at all with any terrorist activities or violation of human rights whatsoever. One of the hallmarks of ALSTOM's reputation for integrity is its respect for, and compliance with, those laws, regulations or similar mandatory requirements, that apply to the conduct of its business in all countries in which it operates.

The contract consists in the supply of electro-mechanical equipment for the Merowe Dam project in Sudan. It was awarded by the Ministry of Irrigation and Water Resources of the Republic of Sudan in November 2003 and represents less than 1% of Group sales for fiscal year 2005/06. This project is taking place in the centre of Sudan, around 500 kilometres from the Darfur region. An ALSTOM office was opened in Khartoum to allow the execution of this project.
ALSTOM does not have any investments in Sudan other than the ones that are related to the rented Khartoum office, i.e., for office furniture, cars, or the camp on the Merowe site.
The Group has no license agreements in nor any technical or commercial know-how transfers to Sudan, neither for this High Dam project nor for any other. The current activities are restricted to the execution of the Merowe project and a further Customer Service Activity for rehabilitation of generators and turbines at the Khartoum North Power Plant.
Today ALSTOM has 5 expatriates and about 15 local staff employed by ALSTOM in Sudan. The Group also has several experts working at the Khartoum North Power Plants on an assignment basis for supervision.

The Merowe project contract is totally exempt of any taxes, duties and other fees or charges in Sudan.

ALSTOM

Chairman and Chief Executive Officer

The project is financed by various Arab funds and ALSTOM received direct payments from these funds after approval of the Dams Implementation Unit (DIU).

Concerning the policies and procedures for operation in Sudan, ALSTOM applies standard Environmental, Health and Security (EHS) procedures, as well as normal operational procedures, that would apply in any equivalent project anywhere. Furthermore, ALSTOM applies the standard regulations for safety, health and evacuation (See ALSTOM's code of Ethics enclosed).

ALSTOM has not done anything directly to promote and protect human rights as the Group is employed by the DIU, who is ultimately responsible for such issues. ALSTOM is one of four contractors responsible for the electro-mechanical scope and its implementation, in accordance with its contractual obligations. Lahmeyer International of Germany, who is responsible for overall design and project management, is our interface as they act as the engineering consultant.
However, ALSTOM's policy is to fully comply with the United Nations Universal Declaration of Human Rights.

As the lack of available electrical power is a clear bottle-neck for the economic and social development in the country, the Merowe Dam project marks a milestone in the economic progress of Sudan. On completion, the power generation capacity of the country will be more than doubled to the benefit of the entire population.

Yours sincerely,

Patrick Kron
Chairman & CEO

PETRÓLEO BRASILEIRO S.A.
PETROBRAS

RECEIVED
PSERS
MAR 5 2007
EXECUTIVE OFFICE

INTER-DN 006/07 Rio de Janeiro, February 28, 2007

Public School Employees´ Retirement System
5 North Street
P. O. Box 125
Harrisburg, Pennsylvania 17108-0125
USA

Fax no. 1-717-772-5372

Attn.: Mr. Jeffrey B. Clay
Executive Director

Dear Sir,

We refer to your letter dated January 31, 2007 whereby you, indicating your condition of shareholders of PETROBRAS, express your deepest concern over alleged or actual business activities of this Company in Sudan, making reference to alleged atrocities and human rights violations occurring in that country, a fact that would not recommend the performance by PETROBRAS of such activities therein.

Your correspondence asks us to provide you written assurances that "none of the identified activities of ...PETROBRAS... support or aid those who are engaging in atrocities and human rights violations" and furthermore you indicate that for purposes of your letter, PETROBRAS includes "any of its subsidiaries, affiliates, joint ventures, partners, associates or any other entity through which ...PETROBRAS does business".

We hereby take the opportunity to assure your goodselves formally that PETROBRAS at present is neither planning nor carrying out any business activities in Sudan, either directly or through any of its affiliates or subsidiaries, or any other entity or partnership over which we might or may exercise any degree of corporate control.

As to the possibility of other unrelated companies with which we may have commercial relations elsewhere or (unrelated) partners having activities in Sudan that may lead to those violations, this is a matter that is, as you may possibly understand, outside our control, but we could even in this case advance to you that we believe that such a situation does not exist, to the best of our knowledge.

INTER-DN – INTERNATIONAL DEVELOPMENT AREA
Av. República do Chile, 65 – Suite 1003 10th. floor - Centro
Tel.: (55-21) 3224-6603 Fax.: (55-21) 2215-4733

INTER-DN 006/07

As a matter of fact, it is a standard provision that we try to insert in all our Memoranda of Understanding we negotiate with third parties the following clause:

> "The Parties shall always conduct their business and implement the activities referred to in this MOU in an ethically acceptable, sustainable and socially responsible manner".

Very Truly Yours,

p/ Roland Carneiro Lima

Luis Carlos Moreira da Silva
Petroleo Brasileiro S. A. - PETROBRAS S.A.
Executive Manager for International Business Development

wc: Investor Relations, PETROBRAS S.A.

INTER-DN – INTERNATIONAL BUSINESS DEVELOPMENT
Av. República do Chile, 65 – Suite 1003 – 10th Floor - Centro
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FEB 23 2007

4 P.S.E.R.S.

Lundin Petroleum SA

5, Chemin de la Pallanterie, 1222, Vésenaz, Switzerland ■Telephone: +41 22 595 1000 ■ Fax:+41 22 595 1005
E-mail: info@lundin.ch ■ Website: www.lundin-petroleum.com

Jeffrey B. Clay
Executive Director
Commonwealth of Pennsylvania
Public School Employees' Retirement System
5 North 5th Street, PO Box 125
Harrisburg, Pennsylvania 17108-0125
USA

Geneva, February 12, 2007

Reference: your letter dated on January 31, 2007

Dear Mr. Clay,

Thank you for inquiring about our activities in Sudan and giving us the opportunity to explain what our current activities are there and the actions we are taking to exert a positive influence on the country's situation and its people.

First, let us underline the fact that the realities in Sudan have changed over the past two years; except for the very unfortunate crisis of Darfur, which hopefully is in the process of being resolved, thanks to the efforts of the international community, the rest of the country and in particular the South, which witnessed war for over two decades, is essentially at peace since January 9, 2005, date of the signing of the Comprehensive Peace Agreement (CPA).

The CPA has not only resulted in establishing peace in the vast majority of the country, but it is also starting to bring the expected rewards, i.e. the reconstruction and rehabilitation of Sudan, in particular South Sudan. This is being achieved in part by international donor contributions but also, significantly by oil revenues, 50% of which flow into the budget of the Government of South Sudan (GOSS) and 2% of which go directly to the producing state. The transfer of revenues from the Government of National Unity (GONU) to the South is now a reality, which we were able to check during our meetings with local representatives of the Southern States. As a result of this the economy of Sudan has witnessed since 1999 constant growth, at around 6% in 2006 and projections reaching as high as 13% in 2007. This economic development will no doubt help stabilize the country as a whole and provide the basis for a more stable future.

As to Lundin Petroleum's role and responsibilities in Sudan, they are as follows:

Lundin Petroleum has retained a 24.5% non-operated asset in Block 5B, South Sudan; the operator, who is responsible for managing the project locally, is WNPOC. Currently we are in the preliminary stages of exploration activities, i.e. the acquisition of seismic data. This field activity is being carried out with the consent and support of local Southern authorities and is accompanied by a community development program.

In other words, other than license fees, there are no revenues from the activities in Block 5B, only expenditures and this is likely to last for another few years, as we need to still carry out exploration drilling, appraisal and development work before being in the position to be able to produce, and therefore receive and share revenues with our partners and the government's of Sudan.

Given Lundin Petroleum's past activities as operator in Sudan, it is keenly aware of potential problems which can emerge in operating in such a country, which is why it adopted at its creation a Code of Conduct and developed mechanisms to deal with stakeholder problems or concerns (the Code of Conduct and other information relating to Lundin Petroleum's corporate responsibility approach can be consulted on its website: www.lundin-petroleum.com). Thus while not formally part of the UN Global Compact, Lundin Petroleum is fully supportive of its principles and has participated as a speaker at its launch at the UN headquarters in Geneva, Switzerland. Similarly, the Company has developed a Human Rights Primer which was presented to both corporate and operational staff and communicated the UN Law Enforcement Nations (UN) Code of Conduct for Law Enforcement Officials and the UN Basic Principles on the Use of Force and Firearms by Law Enforcement Officials with relevant staff, at the time it acted as operator.

Lundin Petroleum is in ongoing contact with various stakeholders regarding Sudan, whether the representatives of relevant authorities in Sudan, with local and international NGOs such as Amnesty Business Group, Business Humanitarian Forum, Vet-Care, etc. but most importantly with its partner in Sudan, WNPOC, to ensure that activities are conducted abiding to the highest principles of corporate citizenship, as contained in the documents referred to above.

In addition to the community development activities which it contributes to through the 5B consortium, Lundin Petroleum has dedicated approximately one third of its Corporate Donations' program (see attached leaflet) to Sudan in 2006. Below is a list of the projects which it has carried out, all but one (Bridge of Hope, the first organisation which Lundin funded when it started to work in Sudan) have taken place in the Juba area, seat of the Government of South Sudan. In 2007 we plan to continue projects there, particularly in the capacity building field, in collaboration (discussions to be initiated) with the University of Juba.

Salam Sudan Foundation is an international NGO in South Sudan working in association of the University of Juba on local capacity building projects. With the flow of oil revenues accruing to the Government of South Sudan, there is an increasing need to enhance the capacity of the bureaucracy to plan and implement projects. Lundin Petroleum sponsored a training workshop on small projects formulation for government officers in the Ministries of Planning and Finance and local NGOs. It plans to repeat this project in the same or a slightly modified format in 2007.

Vet-Care Organisation, Sudan is the second main humanitarian project Lundin Petroleum supports in the Juba area. Vet-Care Organisation is a Sudanese NGO which has particular expertise in the veterinarian sector. Vet-Care is implementing a food security and capacity building program on our behalf. The purpose of the project is to raise the awareness of the importance of animal health and its impact on human health and develop the local capacity to diversify their means of income. The project develops in a sequence, beginning with refurbishing and equipping the main veterinarian clinic, followed by the construction of five women development centers which will act as training centers in food security and will conclude with the establishment of food processing units in each of the centers.

A third project carried out in Juba was the distribution of 1'400 school bags with necessary supplies at the Primary School in Juba so that children can truly benefit from the education they are being given. In addition, it has financed the construction of 10 latrines, as the number of latrines (two) was completely inadequate for such a large number of pupils.

Lundin Petroleum has also contributed to the running costs of a project by the Southern Sudan Older People's Organisation (SSOPO) whose mission is poverty alleviation and the support of life skills in the County of Juba, whereby orphaned school drop outs and caregivers of HIV/AIDS children are given vocational training and sewing machines.

Lastly is Lundin Petroleum's continued support to Bridge of Hope; Bridge of Hope acts as a home for 35 street children from the greater Khartoum area. Boys ranging from the age of three to eighteen receive shelter, food and education. Bridge of Hope also acts as a drop-in centre for up to 120 children, who receive daily meals and some training. Lundin Petroleum has been supportive of this institution since it established itself in Sudan and remains committed to it, as it has witnessed the positive impact on the children and their future opportunities. In 2006, the Company covered close to half of its yearly running costs.

Thus while Lundin Petroleum is currently non-operator in Sudan, we nonetheless maintain a pro-active role in particular in matters relating to corporate social responsibility issues. Attached you will find an article which describes Lundin Petroleum's approach in Sudan, while operator, an approach which it is pursuing together with the operator.

Should you have any more questions or comments regarding the foregoing, please do not hesitate to contact me.

Sincerely,

Ashley Heppenstall
CEO

Encl: Code of Conduct, Lundin Approach in Sudan, Corporate Donation Leaflet
Cc. Maria Hamilton

TOTAL

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FEB 22 2007
EXECUTIVE OFFICE

INVESTOR RELATIONS
Vice President

Our ref. : JS/FC/009-07

ATTACHEMENTS:
CODE OF CONDUCT/CSR 2005/TOTAL E&P SOUDAN ETHICS CHARTER

Commonwealth of Pennsylvania
Public School Employees' Retirement System
5 North 5th Street
PO Box 125
Harrisburg, Pennsylvania 17108-0125

To the attention of Mr Jeffrey B. Clay
Executive Director

Paris la Défense, February 21, 2007

Via Express mail

Dear Mr Clay,

Thank you for your letter to our Chairman Thierry Desmarest, dated 31st January 2007, whereby, representing a significant shareholder of Total, you express your interest in Total's investment project in Sudan.

In order to address your issues in a comprehensive manner, I suggest giving you an overall picture of our business principles as well as our activities in Sudan.

Business Ethics and Social Responsibility are key to Total's development projects. Please find attached copies of the Group's Code of Conduct regarding ethical matters and the 2005 Corporate Social Responsibility (CSR) Report (see page 15 for Sudan). These documents should more fully demonstrate Total's commitment to working according to the highest standards and in strict compliance with applicable regulations, i.e. UN, European or French regulations that may prevent foreign investments or sanction certain countries.

As a privately held company, active in more than 130 countries, we are fully aware of the commitments and responsibilities we have towards our various stakeholders. We try as best as we can to establish close dialogue with our shareholders, employees, neighbouring populations and host countries. Among these commitments is, of course, transparency on our operations and we are ready to answer any question or enquiry that might be directed at us concerning our activities, and notably our project in Sudan.

Adresse postale : 2 place de La Coupole - La Défense 6 - 92078 Paris La Défense Cedex
Tél. + 33 (0)1 47 44 45 46

More specifically on Sudan: Total, through its affiliate, "Total EP Soudan", has been operating the Exploration and Production Sharing Agreement ("EPSA") for Block B in southeast Sudan since 1980, alongside partners Marathon Petroleum Sudan Ltd (32.5%, United States), Kufpec Sudan Ltd (25%, Kuwait) and state-owned Sudapet (10%). In 1984 and 1985, the consortium conducted a 1,600 km seismic campaign on Block B but no specific capital investment has been made locally. Security issues in the region caused us to suspend exploration operations in 1985.

In late December 2004, an update of the 1980 EPSA was signed with the Sudanese authorities in order to take account of new international industry standards, particularly in relation to Corporate Social Responsibility, and to establish the terms and conditions for a resumption of our operations in Sudan. As stated clearly in our Code of Conduct, we expect to be able to work in strict compliance with the highest standards in the area in which we hold mining rights.

Recent political developments following the setting up in September 2005 of a government of national unity have led to an improved situation between the North and the South of Sudan. As a result, Total may resume operations on site through the launching of a seismic campaign. Needless to say, resuming our operations there could only be decided after a thorough review of the risks associated with the project, as is the case for any investment project within Total. Furthermore, once launched, as with any project managed by the Group, regular risk appraisals would be conducted throughout the life of the project.

The safety situation in Southern Sudan is being closely appraised. We are currently working with the UN in order to organize the progressive de-mining of the area. At the present time, our local staff consists of 6 persons (2 French and 4 Sudanese nationals).

In addition, and as early as 2003, Total has established links with a Christian NGO 'ECOS' – European Coalition on Oil in Sudan (see www.ecosonline.org) and with a Boston-based organisation 'CDA' – Collaborative for Development Action (see www.cdainc.com) to learn more about the region and to set up development programmes in liaison with the local communities which would suit the local context and needs. Being in such an early phase of our project, perhaps you can appreciate that we are not in a position yet to describe the programmes we will fund to benefit ordinary Sudanese, and more specifically South Sudanese population neighbouring our area of operations.

This outside expertise and monitoring will also help us ensure that business is conducted in Sudan in line with Total's Code of Conduct and values as well as principles derived from international law, agreed provision of the Peace Agreement, European Union's and African Union's regulations, French regulation, the UN's Joint Assessment Mission in Sudan (JAM), OECD, UN Global Compact and the Voluntary Principles on Security and Human Rights for Extractive Industry.

In addition to the above laws, regulations and agreements, Total E&P Soudan has issued its own Ethics Charter, which we attach hereto, and which has been specifically tailored to be appended to all contracts that may be passed by the subsidiary.

In light of the context described above, you will understand that the consortium led by Total doesn't derive any revenue nor provide any income to the government of Sudan (with the exception of monies foreseen under the EPSA in respect of surface rentals, training scholarship fees and Social Development contribution, being around 1 million US$/year). Given the difficulties of operating in the region and the necessary time to develop potential reserves in a responsible and sustainable manner (exploration, development, transportation of hydrocarbons), it is more than likely that no substantial revenues generated by a possible oil production from Block B will be provided to the Government of Sudan and to our Consortium before 5 or 6 years after development has started.

To finish with, please be assured that Total is strongly concerned about the ongoing violence in Darfur. Although our area of operations, Block B, is situated over 800 miles southeast from Darfur and while our company has no plans to undertake any operations in this region, Total fully supports the efforts undertaken by international and Sudanese parties to resolve the conflict and put an end to violence in Darfur.

We hope the above will satisfactorily answer your different questions. Please also note that further information can be found on Total's presence in Sudan on our website at the following address:
http://www.total.com/en/corporate-social-responsibility/Ethical-Business-Principles/Human-rights/Total-presence-Sudan_9145.htm

We remain at your disposal should you wish to discuss this issue in more detail. You may also get in touch with Eve GAUTIER, who is responsible for CSR / SRI subjects within the Total Investor Relations team here at + 33 1 47 44 47 66.

Yours sincerely,

p.o.

Jérôme Schmitt
Vice President Investor Relations

Copy : J.F. Lassalle, E&P Vice President Public Affairs
R. Hammond, Director Investor Relations, North America
E. Gautier, Investor Relations

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EXECUTIVE OFFICE

February 19, 2007

Jeffrey B. Clay
Executive Director
Commonwealth of Pennsylvania
Public School Employees' Retirement System
5 North 5th Street
P.O. Box 125
Harrisburg, PA 17108-0125

Dear Mr. Clay:

This is in response to your letter to Cummins Chairman and CEO Tim Solso regarding Cummins' business policy toward and activities in Sudan. Thank you for the opportunity to respond to your concerns.

First, Cummins scrupulously follows U.S. law regarding exports to Sudan. Beyond that, the Company has a long history of acting in a socially responsible manner in all parts of the world in which it does business.

Before I address your specific questions, I would like to provide some context to the reports of Cummins alleged business activities in Sudan.

An Amnesty International report last summer suggested that "Cummins engines" were installed in trucks sold by a Chinese company to the Sudanese government. Upon being made aware of the report, the Company quickly began investigating the allegation.

Our investigation found that the engines in question were produced at a joint venture company in which Cummins is a part-owner. The engines in question were sold to our joint venture partner. That company then transferred them to one of its affiliated companies to be installed in trucks that were later sold to Sudan.

Cummins had no knowledge that any engines made by the joint venture company would be eventually installed in trucks sold to Sudan; nonetheless, the Company quickly sent its most senior U.S.-based executive responsible for our operations in China to that country to discuss the issue with our partners.

In those meetings, Cummins told its partners that it did not want components produced by the joint venture being used in equipment sold to Sudan. Cummins also has held similar discussions with other joint venture partners to communicate the same message.

Marya Mernitz Rose
Vice President - General Counsel, and Corporate Secretary

Cummins Inc.
500 Jackson Street
Columbus, IN 47201 USA

Phone 1 812 377 3609
Fax 1 812 377 9713
cummins.com
marya.m.rose@cummins.com

Our efforts didn't stop there, however. Cummins also quickly moved to re-evaluate its policies regarding doing business in Sudan and, as a result, decided to ban all sales of its products in Sudan, regardless of where they originate.

We began to communicate that decision internally last July and enacted a formal policy banning sales to Sudan in mid-September 2006. This decision goes well beyond Cummins' legal obligation under U.S. law, but we feel it is necessary given potential uncertainty over the end use of our products in Sudan.

To answer your specific questions, Cummins has no operations in Sudan, and therefore, has no employees in Sudan and has made no capital investment in the country. Additionally, to the best of our knowledge, Cummins has not entered into any type of commercial agreement with the Sudanese government, nor does Cummins do business with any company owned by the Sudanese government.

As we have said, Cummins takes its responsibility to be a good global corporate citizen extremely seriously, as we hope our actions here make clear. The steps we have taken on this matter are consistent with Cummins' commitment to do what is right, not simply what is required.

Thanks again for your inquiry. Should you have additional questions, feel free to contact me at (812) 377-3609 or marya.m.rose@cummins.com.

Sincerely,

Marya M. Rose

MMR/sc

CC : Tim Solso

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FEB 15 2007

3 P.S.E.R.S.

Reliance
Industries Limited

Alok Agarwal
Chief Financial Officer

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EXECUTIVE OFFICE

February 10, 2007

Jeffrey B. Clay
Executive Director
Public School Employees' Retirement System
5 North 5th Street, PO Box 125,
Harrisburg,
Pennsylvania 17108-0125.
USA

Dear Mr. Clay

Thank you very much for being shareholders of Reliance Industries Limited (RIL).

I am writing this in response to your letter dated January 31, 2007 addressed to Mr. Mukesh Ambani, Chairman of the Board of Directors of RIL.

As long term shareholders in RIL, I do understand your concerns about any connection actual or alleged, between RIL and the events in Sudan which may have a negative impact on RIL's business, as a result on your investments in RIL.

The response to questions asked by you is as under:

1. **Describe any and all of Reliance Industries Ltd.'s business activities in Sudan, if any, including, but not limited to, the duration of such operations, the location of those operations in Sudan and with whom such operations are conducted. Specifically note any money paid to the government of Sudan and any partnerships or other relationships with Sudanese government business entities.**

2. **Explain why such business activities are necessary for Reliance Industries Ltd. considering its total business operations.**

   We do not have any investments in Sudan currently nor do we have any but the most negligible business dealings with that country.

   During the financial year 2005-06, RIL had exported Polyethylene (PE) of the aggregate value of less than US$ 150,000 to Sudanese entities. Polyethylene is commonly used for packaging various consumer products.

RIL is also the large exporter of refined products globally and its products are sold to all major traders and producers worldwide. It is possible that gasoline or diesel produced by us could be sold onwards by any of the traders to Sudanese entities and whatever steps we may take, we would have no effective control over this. However, since these are globally traded commodities sold at prevailing international prices, no undue benefits can accrue to any party.

I would like to assure you that none of the activities of RIL in Sudan support or aid those who are engaging in atrocities and human rights violation.

As an international company, we are very cognizant of the principles of good corporate governance and responsible corporate behavior.

In case you require any further clarification, please feel free to contact me directly.

Yours Sincerely

Alok Agarwal

Alok Agarwal

RELIANCE Energy
Anil Dhirubhai Ambani Group

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EXECUTIVE OFFICE

Reliance Energy Limited
Reliance Energy Centre
Santa Cruz (E)
Mumbai 400 055, India

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Fax: +91 22 3009 9775
www.rel.co.in

February 13, 2007

Mr. Jeffrey B. Clay
Executive Director
Public School Employees' Retirement System
5 North 5th Street
PO Box 125
Harrisburg, Pennsylvania 17108-0125

Dear Mr Clay,

We refer to your letter dated January 31, 2007 addressed to our Chairman and Managing Director Mr. Anil D Ambani, seeking information on business activities of the Company in Sudan.

We hereby confirm that neither Reliance Energy Limited nor any of its subsidiaries, affiliates, joint ventures, associates have any business activities in Sudan.

Yours faithfully,

For Reliance Energy Limited

Ramesh Shenoy
Company Secretary

Alcatel-Lucent

54, rue La Boétie
75411 Paris Cedex 08
France
Tél. : + 33 (0)1 40 76 10 10
Fax : + 33 (0)1 40 76 14 00

Mr. Jeffrey B. Clay
Executive Director
Public School Employees' Retirement System
5 North 5th Street
PO Box 125
Harrisburg, Pennsylvania 17108-0125
United States of America

Paris, February 7, 2007

Re: Your letter dated January 31, 2007

Dear Mr. Clay,

This is in response to your letter of January 31, 2007.

Alcatel-Lucent is a telecommunication solutions provider involved in business partnerships in more than 130 countries. Alcatel-Lucent maintains a limited commercial activity in Sudan, focused on civilian telecommunications.

Our very limited involvement in Sudan has been public knowledge for some time now and following similar requests, I am enclosing a copy of a disclosure document which was filed with the Securities and Exchange Commission on November 18, 2005, in which you will find full details of our operations in, and ties to Sudan.

I fully agree that the global situation in Sudan is of utmost concern to all responsible members of society and, as a general statement, would like to add that from an ethical point of view, we at Alcatel-Lucent consider that participating in the enhancement of the communication capabilities of a country can only benefit the country's economy, by promoting the development of the population's cultural level and ultimately its capacity to evolve to democracy. Due to the very special nature of our business, we view our involvement as having a positive impact. Certainly, we do not claim to bring direct comfort or help to the victims, but by providing telecommunication equipment we help open Sudan to the rest of the world.

Furthermore, we hope to convince you and any other investors that one should distinguish between our involvement, which fosters greater exchange between Sudan and the rest of the world, and those that are aimed at providing firepower to the belligerents.

Please count on Alcatel-Lucent's support on this important issue.

Yours sincerely,

Pascal Bantegnie
Vice President Investor Relations

ALCATEL

54, rue la Boétie
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France
Tél.: +33(0) 1 40 76 10 10
Fax: +33(0) 1 40 76 14 00

VIA EDGAR AND OVERNIGHT COURIER

Cecilia D. Blye
Chief, Office of Global Security Risk
Division of Corporation Finance
United States Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-5546

November 18, 2005

Re: **Alcatel**
Form 20-F for the Fiscal Year Ended December 31, 2004
Filed March 31, 2005
File No. 001-11130

Dear Ms. Blye:

Reference is made to the comments of the Office of Global Security Risk of the Securities and Exchange Commission with respect to the above referenced annual report on Form 20-F of Alcatel, a French *société anonyme*, for the fiscal year ended December 31, 2004 that was filed on March 31, 2005, in your letter dated September 29, 2005.

I am writing to respond to the comments of your office and to provide the supplemental information that you have requested.

For your convenience, your comments are set forth in this letter, followed by our responses and the requested supplemental information.

General

1. With a view to disclosure, please describe for us all previous, current and anticipated operations in, and ties to, Syria, Libya, Iran and Sudan. Your response should detail all operations and ties, including contracts through distributors, foreign subsidiaries and other arrangements whether direct or indirect.

Cecilia D. Blye
Office of Global Security Risk
Securities and Exchange Commission
November 18, 2005
Page 2

A. Our operations in, and ties to, Syria are as follows:

In April 2003, Polytech International for Supplies & Consultation, Inc. ("PISC") was awarded a contract by Syrian Telecom for the supply and installation of a public data network. PISC subcontracted to us the supply of 5,000 asymmetrical digital subscriber line ("ADSL") ports under their contract with Syrian Telecom. The value of this contract is not significant.

In March 2005, we executed a commercial contract with Syrian Telecom for the supply, installation and commissioning of a customer care and billing system. This contract is valued at approximately €19 million and is expected to be implemented by November 2005. Syrian Telecom is an incumbent fixed line operator that is wholly owned by the Syrian government.

We are currently in discussions with Spacetel Syria regarding the implementation of a universal mobile telephone communications system trial network.

B. Our operations in, and ties to, Libya are as follows:

Alcatel began conducting business with General Post and Telecommunication Company ("GPTC") in 1979, mainly related to providing fixed communications equipment and services, including fixed switching and optical fiber networks. The expected revenue from our business with GPTC in 2005 is approximately €5 million. GPTC is wholly owned by the Libyan government.

Alcatel began conducting business with Al Malar in 2000, mainly related to providing mobile communications equipment and services, by way of a GSM network. The expected revenue from our business with Al Malar in 2005 is approximately €10 million. Al Malar is an incumbent mobile telecommunications operator and is wholly owned by GPTC, which in turn is wholly owned by the Libyan government.

We and AGIP gas Libya ("AGIP") are parties to a multi-year contract for network installation, design and building related to AGIP's oil rigs in Libya. This contract is valued at approximately €60 million over the 5-year term of the contract. 50% of AGIP is owned by the Libyan government.

In April 2005, we made an offer to the General People's Committee for General Security of Libya ("GPCGS") for a homeland surveillance system, in the context of a bidding process.

Cecilia D. Blye
Office of Global Security Risk
Securities and Exchange Commission
November 18, 2005
Page 3

C. Our operations in, and ties to, Iran are as follows:

During the first quarter of 2004, Asre Danesh Afzar awarded a contract for 23,000 digital subscriber lines to us. Sales under this contract were completed during the first quarter of 2005, for approximately €3.4 million.

Toyo Engineering Company ("Toyo") is a major contractor for the National Iranian Oil Company ("NIOC"). NIOC is wholly owned by the Iranian government. During the second quarter of 2004, we entered into a sub-contract with Toyo, valued at approximately $7.2 million, to provide an integrated communication solution for an onshore gas plant and three offshore platforms of the South Pars gas field in Iran by the end of 2006. As of November 2005, sales completed under this contract are negligible.

We entered into a contract in 2004 with Telecommunications Company of Iran ("TCI") for synchronous digital hierarchy transmission equipment. We expect to deliver approximately €9 million of equipment in 2005. TCI is an incumbent fixed telecommunications operator that is wholly owned by the Iranian government.

We entered into a contract with Rafsanjanian Industrial Complex in 2004 to provide a mobile network. The contract is valued at approximately €3 million.

During the third quarter of 2005, we entered into a contract with National Iranian Gas Company ("NIGC"), valued at approximately €6.4 million, to provide telecommunication and control services for gas pipelines. As of November 2005, no sales have been completed under this contract. NIGC is wholly owned by the Iranian government.

Pursuant to a contract with Iranian Telecommunication Manufacturing Co. ("ITMC"), we expect to deliver €1.2 million of time division multiplexing switching equipment in 2005. 50% of ITMC is owned by TCI, which is wholly owned by the Iranian government.

We recently entered into a contract with a local distributor, Hamgara, for the delivery in 2006 of a €1.5 million "PABX" (a private access business exchange or switchboard). We have been advised that the ultimate customer is the Iranian Ministry of Defense.

D. Our operations in, and ties to, Sudan are as follows:

In December 2004, we signed a commercial contract with Bashair Telecom Co. Ltd ("BTCL," doing business as "Areeba"), valued at approximately €30 million, for the design, engineering, build-out, installation and commissioning of a second GSM network in Sudan, including UMTS equipment in the Khartoum area, in accordance with a license awarded by the Sudanese National Telecommunication Corporation to BTCL in October 2003. In order to finance a portion of the orders under this contract, Electro Banque, one of our subsidiaries, entered into a facility agreement with BTCL for €26,574,262 on April 29, 2005. The conditions precedent to the availability of the facility are currently in the process of being satisfied by BTCL, and therefore no drawdowns have yet been made under the facility.

We have a contract with Petrodar, an oil and gas company, to implement a telecommunications network (optical fiber) and supervisory control and data acquisition systems along an oil pipeline called the MELUT Basin project. This contract is valued at approximately €15 million.

We have a contract with Sudatel, an incumbent wireline operator, for the extension and maintenance of existing Alcatel public switches, a well as the expansion of the number of ADSL ports. 26% of Sudatel is owned by the Sudanese government. The value of this contract is not significant.

* * * * *

Alcatel's French subsidiary, Alcatel CIT, has a branch in Libya. Alcatel's German subsidiary, Alcatel SEL, has a branch in Iran. As noted above, we signed a contract with a local distributor in Iran concerning the sale of a PABX.

We have described in detail our operations in, and ties to, the above-referenced countries since 2003, except for Libya, for which we provided additional historical information. From 1999 through 2002, our operations in, and ties to, the above-referenced countries was of a similar nature and of equal or less economic importance.

2. With a view to disclosure, please address the materiality of all such operations, contacts or arrangements and your view as to whether those operations or arrangements constitute a material investment risk for your security holders.

Our 2005 revenues from operations in Syria, Libya, Iran and Sudan are estimated to be approximately €2 million, €24 million, €25 million and €45-50 million, respectively.

Qualitatively and quantitatively, we believe that our operations, contacts and arrangements in the above-referenced countries are not material to our business as a whole and do not constitute a material investment risk for our security holders. Our contracts in the above-referenced countries, in the aggregate, represent less than 1% of our total expected revenue in 2005.

Cecilia D. Blye
Office of Global Security Risk
Securities and Exchange Commission
November 18, 2005
Page 5

3. Please describe for us whether any of your equipment or services used or sold in the above-referenced countries has a military purpose or, to the best of your knowledge, understanding and belief, can be put to military use.

   We do not believe that any of our equipment (which is "commercial off-the-shelf equipment") or services used or sold in the above-referenced countries, as described above, has a military purpose or, to the best of our knowledge, understanding and belief, can be put to military use, it being noted that the surveillance system and the PABX mentioned earlier are to be used by the Libyan GPCGS and the Iranian Ministry of Defense, respectively.

* * * * *

Over the last decade, Alcatel has pursued its efforts towards reconciling economic development with its ethical responsibilities in the global community. In the above-referenced countries, Alcatel maintains only limited commercial activity, focused on telecommunications. We believe that participating in the enhancement of the communication capabilities of a country can only benefit the country's economy and in turn help to improve the standard of living of its citizens.

We would appreciate your review of the responses and supplemental information provided herein and your notification to us if you have further comments or questions. Please contact Lauren K. Boglivi of Proskauer Rose LLP at (212) 969-3325 should you have any questions or additional comments.

Very truly yours,

ALCATEL

By: // Jean-Pascal Beaufret
Jean-Pascal Beaufret
Chief Financial Officer

cc: Larry Spirgel, Assistant Director, Division of Corporation Finance
James Lopez, Office of Global Security Risk
Serge Tchuruk

amec

RECEIVED

FEB - 8 2007

EXECUTIVE OFFICE

5 February 2007

Mr Jeffrey B Clay
Executive Director
Public School Employees' Retirement System
5 North 5th Street
P.O. Box 125
Harrisburg
Pennsylvania 17108-0125
USA

Dear Mr Clay

Activities in Sudan

Thank you for your letter dated 31 January 2007 addressed to our Chairman and copied to Investor Relations.

AMEC previously had a small and limited interest in supporting a client working in Sudan through its AMEC SPIE business. This interest came to an end with the sale of AMEC SPIE in July 2006.

AMEC has a robust and comprehensive management system which set standards, identifies social, environmental and economic risks and applies appropriate measures to eliminate and control residual risk. All contracts, particularly in sensitive areas of the world, are carefully considered prior to acceptance and managed to ensure that risk is limited and controlled appropriately.

Further information on our approach to sustainability at AMEC may be found on our website at http://www.amec.com/about/about_landing.asp?pageid=873

Please do not hesitate to contact me if you require any further information.

Yours sincerely

Neil Jamieson
Director of Investor Relations

AMEC plc
65 Carter Lane
London EC4V 5HF

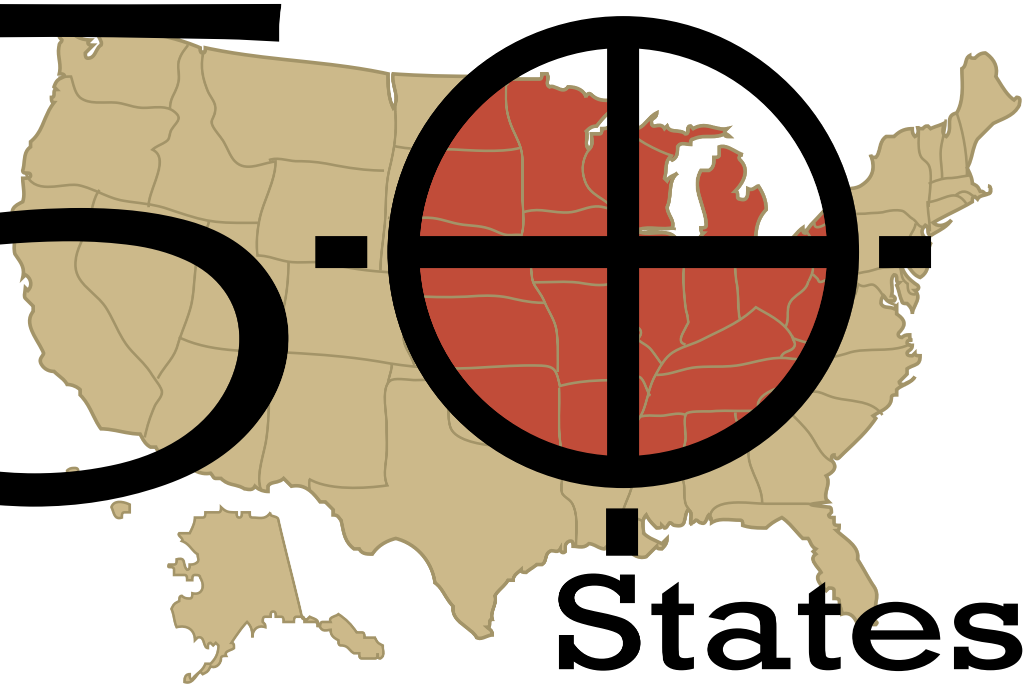
Registered Office
Sandiway House
Hartford Northwich

APPENDIX V

“THE TERRORISM INVESTMENTS
OF THE 50 STATES”

The Center for Security Policy

The Terrorism Investments of the 50 States



The Center for Security Policy
www.DivestTerror.org
August 12, 2004

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EXECUTIVE SUMMARY

"Terrorism Investments of the 50 States" is the first national security-based statistical analysis of the investment patterns of America's public pension funds. This report proves empirically that **this nation's largest and most prominent public pension systems tend to be heavily invested in global publicly traded companies that have business activities in terrorist-sponsoring states.**[1]

Together, these funds invest over **$1 trillion** *in stock alone*[2] on behalf of this country's fire fighters, police officers, teachers, state and local officials and other public employees, making *this collection of funds one of the most powerful investment blocks in the world*. Given this extraordinary financial influence and the important role played by public companies in the economies of terrorist-sponsoring states[3], the Center for Security Policy has reached a key finding: **America's 100 largest and most prominent pension systems have the power to help defeat terrorism.**

From the pension system of this country's smallest state, Rhode Island, which has close to $400 million invested in 41 companies that are active in terrorist-sponsoring states, to America's largest public pension system – the California Public Employees Retirement System – which has over $17 billion invested in 201 such companies, the results were remarkably uniform**:**

> ***On average, America's Top 100 pension systems invest between 15 and 23 percent of their portfolio in companies that do business in terrorist-sponsoring states.***[4]

Among the report's other important findings:

- 39 of the Top 100 pension systems were found to be invested in more than 100 companies with corporate ties to terrorist-sponsoring states. Of the rest for which there is data, only five hold less than 30 companies with such ties in portfolio.

- On average, the Top 100 pension systems invest in 101 companies that have business activities in terrorist sponsoring states. **These companies, in turn, are involved in projects in terrorist-sponsoring states valued at more than $73 billion.**[5]

- On average, the Top 100 public funds were invested in: 73 companies doing business in Iran; 24 companies doing business in Libya; 26 companies doing business in Sudan; 31 companies doing business in Syria; and 9 companies doing business in North Korea.

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[1] This report sought to analyze America's "Top 100" largest and most prominent public pension systems, excluding public university endowments. **At the time of publication, only 87 of these public pension funds had provided the data required to undertake this analysis.**
[2] America's Top 100 funds invest via a number of other investment vehicles, making their total investments on behalf of the American people closer to $2 trillion.
[3] For the purposes of this report, terrorist-sponsoring states are defined as **Iran, Saddam Hussein's Iraq, Libya, North Korea, Sudan** and **Syria**. Although Cuba is also correctly listed as a state-sponsor of terrorism by the U.S. Department of State, relevant data for Cuba was not available for this study.
[4] To perform the analyses of the 100 pension systems' investment portfolios, the Center forwarded this data to the Conflict Securities Advisory Group (CSAG). Using their *Global Security Risk Monitor*, CSAG ran each portfolio to determine its exposure to companies doing business in terrorist-sponsoring states or to proliferation-related concerns. The Center's use of this data and the views and policy recommendations expressed in this report do not necessarily reflect those of CSAG or its partner firm, Investor Responsibility Research Center.
[5] Of the roughly 400 companies considered in this report, project values and similar financial data was available for only some 150 companies. A reasonable estimate of the value of all 400 companies' projects in terrorist-sponsoring countries would be well over $100 billion.

- On average, the Top 100 pension systems were invested in 17 companies that did business with Saddam Hussein's Iraq prior to the war.

From the fact that virtually each and every public employee in this country holds stock in companies that partner with governments that sponsor terrorism flows an extraordinary opportunity: **America's 100 largest and most influential pension systems have the power to help defeat terrorism.** To understand why requires only one further statistic: **The total estimated value of the stock of some 400 companies doing business in terrorist sponsoring states held by America's leading public pension systems is approximately $188 billion.**[6]

When a group of investors own roughly $200 billion worth of stock in some 400 companies, they should be able to exercise considerable influence over the decision-making and business activities of those companies. Accordingly, if these Top 100 pension systems were to make clear that their funds will not be available to corporations partnering with terrorist-sponsoring states, the message would be unmistakable: There will no longer be simply profits to be garnered from investments in rogue states; from now on, there will be real costs. Ideally, those costs will translate into a choice between doing business with the American people and capital markets on the one hand or, alternatively, doing business with terrorists' friends and this country's enemies.

The South Africa divestment campaign of the 1980's taught Americans a compelling lesson: When companies receive a unified message from state pension systems and other institutional investors who follow their lead, they respond. It seems reasonable to expect that, just as such corporate actions (notably, withdrawal from business operations in-country) compelled changes in the policies – and ultimately the government – of South Africa, application of this model to state-sponsors of terror could also produce salutary results. In other words, **the Top 100 public pension systems can help defeat terrorism by using their investments in public companies to force the governments of Iran, Syria, North Korea, Sudan and Libya to choose between their sponsorship of terrorism and their critical partnerships with public companies.**

In a recent letter to the Executive Directors of the same Top 100 pension systems assessed herein, **Senator Frank Lautenberg** (D-NJ) left little doubt as to the moral responsibility of our nation's pension systems to help defeat terrorism. According to the Senator, "**It is…unconscionable for our country's public pension systems to permit investment in companies that provide revenues, advanced equipment and technology to countries that threaten our vital security interests**."

The data in this report establishes that such "unconscionable" behavior is pervasively occurring today. For Americans to understand the full extent to which their money is being used by publicly traded companies to help terrorist-sponsoring regimes, they will need greater transparency and disclosure on the part of those who manage and invest such funds. Toward that end, public employees, taxpayers and state and federal officials and legislators should insist on knowing the full extent of their unintended and undesirable exposure – moral, strategic and financial – to aiding and abetting our enemies.

In the meantime, a simple principle must be applied: Americans do not want to invest in terror, directly or indirectly. Regrettably, that is what is being done on a massive scale today. Stopping such a practice – the goal of DivestTerror.org – can make a significant contribution to waging and winning the war on terror.

[6] Based on the results for the 87 funds analyzed, we estimate that the actual holdings of the Top 100 pension systems in the stock of companies that do business in terrorist-sponsoring states likely exceeds $210 billion.

INTRODUCTION

The Center for Security Policy has long held the view that the U.S. capital markets represent an important front in the financial war on terrorism. The level of national security-oriented scrutiny applied to the capital markets by Wall Street and the U.S. Government to date, however, has been woefully inadequate. This report – part of the Center's new DivestTerror.org campaign – is designed to shed light on the connections between U.S. State Department-designated terrorist-sponsoring states, the proliferation of weapons of mass destruction (WMD) and ballistic missiles, global public companies and tens of millions of American investors. In so doing, this report paints a stark picture of how the **economic life-blood of terrorist-sponsoring rogue regimes is being unwittingly provided by the pension systems and other investment portfolios of average Americans.**

Typically, corporations have considered the question of ties to terrorist-sponsoring states exclusively from the financial standpoint of return-on-investment. This report suggests that, in time of war, decisions by management and shareholders concerning corporate ties to states identified as sponsors of terror and proliferators of weapons of mass destruction must be governed by another consideration: **Investments in, and business ties to, such nations serve to prop up their economies, providing resources, know-how and advanced equipment and technology that compounds the danger they pose to us.**

The Economies of Terrorist-Sponsoring States

It is indisputable that the regimes of terrorist-sponsoring states benefit enormously from foreign investment. Consequently, their attraction of such investment has been a priority over the past several years. For a number of these countries' domestic industries – most notably the energy sectors – foreign investment has been the decisive factor in maintaining their economic vitality. **Without the advanced equipment, technology, expertise and revenues provided by the world's leading public companies, the economies of these countries would stagnate and probably collapse over time.**

Indeed, this premise underpinned the passage of the Iran-Libya Sanctions Act of 1996, which sought to discourage business activities in the energy sectors of these countries in hopes of diminishing the capability of Tehran and Tripoli to sponsor terrorism and fund expensive WMD and ballistic missile programs. According to former Clinton Under Secretary of State Peter Tarnoff:

"A straight line links Iran's oil income and its ability to sponsor terrorism, build weapons of mass destruction, and acquire sophisticated armaments. Any government or private company that helps Iran to expand its oil must accept that it is contributing to this menace."

Libya offers a text-book example of the dependence of these countries on foreign capital. During the 1990s, Libya's oil industry was largely paralyzed and overall government resources severely restricted by comprehensive UN and other sanctions. Eventually, economic pressures brought about what is said to be a dramatic course correction by Muammar Qaddafi involving unprecedented cooperation on a variety of security-related concerns. While the Libyan dictator was clearly concerned that the U.S.-led liberation of Iraq might have meant his regime would be the next to be "changed" by force of arms, another impetus behind this change was his need to reverse the country's dire economic condition which could also have impelled the collapse of Qaddafi's misrule.

The Libyan case underscores the potentially powerful effect that publicly traded companies can have on the policies of rogue regimes. **Indeed, the Center's proposed divestment and investor activism campaign – DivestTerror.org – is based on a simple proposition: Were publicly-traded companies, as a result of investor pressure, to threaten to withdraw from terrorist-sponsoring states or to take such a step if necessary, other rogue states would be compelled to follow the Libya model of foreswearing dangerous policies in exchange for sustained economic viability.**

Iran serves as another example. It reportedly seeks foreign investment of up to *$5 billion per year* to achieve its goal of doubling oil production by 2015. According to the Energy Information Agency of the U.S. Department of Energy: "Overall, Iran's oil sector is considered old and inefficient, needing thorough revamping, advanced technology, and foreign investment."[7] Other countries, such as Syria and Sudan, also benefit enormously from the infusion of foreign capital and expertise coming from scores of international companies. These corporations are primarily publicly traded firms from Europe, Asia and even the United States.[8]

Indeed, there are some 400 publicly traded companies doing business in terrorist-sponsoring states, helping to develop and advance economies that would otherwise stagnate and decline. The alternative to these foreign concerns would be domestic, often state-owned, companies that are plagued with inefficiencies, corrupt business practices and an overall lack of advanced technological capability. In other words, **without U.S. and foreign publicly traded companies, the economies of terror-sponsoring regimes would be severely afflicted.** Under such circumstances, it seems reasonable to expect that their ability to pursue terrorist and other agendas hostile to this country would be significantly degraded, as well.

Trading with the Enemy

In recent testimony before Congress, the senior U.S. official charged with administering and enforcing economic sanctions policy, Richard Newcomb, who directs the Treasury Department's Office of Foreign Assets Control, described the goal of sanctions as "…intended to deprive the target of the use of its assets and deny the target access to the U.S. financial system and the benefits of trade, transactions and services involving U.S. markets."[9] **It is ironic that at the same time the Administration properly seeks to curtail funding for governments that sponsor terrorism, the investment dollars of average Americans are funding companies whose activities in terrorist-sponsoring states directly contravene the objectives of U.S. sanctions policy**.

The willingness, moreover, of other nations to permit their companies to provide material support to state-sponsors of terrorism enables these public firms (and the offshore subsidiaries of U.S. companies) to circumvent and undermine U.S. sanctions regimes. Particularly egregious examples are foreign oil companies held in the portfolios of millions of Americans that generate billions of dollars in annual revenues for governments that aid and abet our terrorist enemies. Since money is

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[7] Country Analysis Briefs: Middle East and North Africa. Iran. Energy Information Administration. Department of Energy. November 2003.

[8] Despite new U.S. trade sanctions on Syria, it is not illegal for U.S. companies to do business in the country. Moreover, even in countries where it is illegal for U.S. companies to do business, a number of them manage to circumvent U.S. law by operating in these countries via overseas subsidiaries. The U.S. Senate has recently debated the need to close this loophole in U.S. sanctions policy and almost certainly will be doing so again in the near future.

[9] Testimony of R. Richard Newcomb, Director, Office of Foreign Assets Control, U.S. Department of the Treasury before the Committee on Banking, Housing, and Urban Affairs United States Senate. May 10, 2004.

fungible, there is little doubt that these revenues are helping to enable such governments' sponsorship of terrorist organizations and development of weapons of mass destruction.[10] Of no less concern is the contribution made to the latter via "dual-use" technology and equipment (i.e., that with both civilian and military applications) obtained through the business operations of foreign firms.

American Investors Underwriting Terrorism

One might ask: What does my pension plan or mutual fund have to do with the fact that these companies are propping up terrorist-sponsoring states? The fact of the matter is that these companies are publicly owned and controlled by their shareholders. Companies use the invested capital represented by each share to fund their corporate operations and policies.

In exchange for their investment, shareholders in these companies have select opportunities to engage in oversight of and decision-making concerning corporate activities. For example, each shareholder has the opportunity to vote at annual shareholder meetings on management issues affecting the company or, in some circumstances, to proffer shareholder resolutions in order to alter any given aspect of corporate policy. Shareholders also have the option of selling their stock, either contributing to downward pressure on share value – which could influence corporate behavior – or simply to register disapproval. **As a result, companies that do business in terrorist-sponsoring states are doing so with the tacit, if unwitting, approval, *and with the funds*, of their investors.**

To be sure, individual investors usually face an uphill battle in influencing corporate behavior. Institutional investors, on the other hand, tend to have considerably greater influence since they typically control far larger stakes in companies.

As has been evident in recent years (notably, in connection with environmental, tobacco and management accountability controversies), public pension and other institutional investors have a demonstrated ability – and, in many cases a perceived obligation – to pursue prudent corporate governance initiatives. Through shareholder resolutions, divestment campaigns and other forms of shareholder activism, institutional investors have materially affected the decision-making of myriad corporations.

There is, therefore, no reason why non-U.S. companies (including American-owned overseas subsidiaries) doing business with terrorist-sponsoring states should be considered beyond the reach of U.S. investors. To the contrary, citizens of this country are heavily invested in these companies, as they often list on U.S. exchanges. Their equity is likewise available to American investors through American Depository Receipts (ADRs), a mechanism that allows for U.S. institutional investors to buy the stocks of foreign companies. The fact that the U.S. houses as much as 40 percent or more of the world's investable capital is not lost on the world's leading publicly traded companies. Neither should the leverage thus conferred be allowed to remain unutilized as an instrument to help win the war on terror. Finally, the overseas subsidiaries of U.S. companies are likewise within the sphere of influence of American investors that own the stock of their U.S. parent company.

[10] While it would be impossible to trace directly revenues generated by a publicly-traded company to the sponsorship of terrorism, the fungibility of money, at minimum, makes possible the freeing of government funds for these nefarious purposes.

‘Global Security Risk’

In fact, there have already been instances where institutional investors took action in response to the perceived exposure of companies to what has come to be known as **“global security risk.”** They have tended to do so, however, due to their perceptions of the undue *financial* exposure associated with investing in companies doing business with terrorist-sponsoring regimes. It stands to reason that institutional (and, for that matter, individual) investors should be even more concerned about investing in corporations that appear indifferent to the harm their activities in rogue states can do to vital U.S. security interests.

For their part, such companies should carefully consider the consequences of conducting business in countries where their presence helps the cause of international terrorism. At the very least, the moral and ethical dimensions of these corporate practices should be assessed. Should they fail to take corrective action, shareholders should feel no compunction about taking management to task by divesting the stocks of companies that insist on helping to meet the acute financial and technological needs of terrorist-sponsoring states.

As it happens, there is another, prudential reason for stockholders to compel changes in problematic, terror-abetting corporate behavior: There is also *financial* risk associated with such behavior. The Securities and Exchange Commission (SEC) has described this as “a crucial issue for investors” and of material concern to their investment decisions. In fact, the SEC has recently established an Office of Global Security Risk to look exclusively at the disclosure-related aspects of this risk category – an initiative that was formally mandated by legislation signed into law in January of this year.

To their lasting credit, the pension funds of two unions at the cutting edge of the war on terror – i.e., those of New York City’s police and firefighters – have been pursuing corporate governance initiatives on the basis of global security risk for more than two years, under the able stewardship of New York City Comptroller William Thompson. States such as Arizona and Pennsylvania have likewise joined the fray, passing on a bipartisan basis legislation explicitly calling on state pension systems and asset managers to account for global security risk.

Incredibly, **notwithstanding either the national security implications or the financial risks of corporate ties to terrorist states, the largest U.S. public pension funds have to date done nothing to address this major challenge**. Indeed, a number of them have actively resisted efforts to educate them and their beneficiaries to the moral, strategic and financial dangers entailed in investments exposed to global security risk. As noted elsewhere in this report, some have even refused to provide information concerning the make-up of their investment portfolios. As things stand now, it seems unlikely that any will be able to respond to Senator Frank Lautenberg’s inquiry regarding how many companies in which they own stock currently operate in terrorist-sponsoring states.

The Center for Security Policy believes such behavior to be seriously misguided, if not actually malfeasant. In the interest of helping to illuminate both the attendant national security and financial implications, the Center has undertaken an in-depth analysis of each state’s major public pension systems. The goal is to examine publicly for the first time the extent of such exposure and to record empirically the extent to which such funds – and the *millions of America’s civil servants* whose interests they purport to safeguard – are invested in companies whose corporate activities are providing revenues, equipment, technology and moral cover to governments that harbor terrorists and threaten the security interests of America and our allies.

METHODOLOGY

"The Top 100 Public Pension Systems" is the feature section of this report. For the investment portfolios of each of America's Top 100 public pension funds, this section provides detailed analyses of their investments in companies that are active in terrorist-sponsoring states and in companies that have been publicly associated with the proliferation of weapons of mass destruction or ballistic missiles. For the purposes of this report, terrorist-sponsoring states are defined as **Iran, Saddam Hussein's Iraq, Libya, North Korea, Sudan** and **Syria**.[11] Also provided is each fund's contact information so that you, the reader, can take steps to register your views on this topic directly with pension and state officials.

Acquiring the Data

In preparing this report, the Center for Security Policy obtained the most recent, publicly-available investment portfolios for each of the Top 100 public pension systems.[12] Accordingly, the investment data underpinning this report is, in most cases, dated June 2004, December 2003 or June 2003. Although small adjustments may have occurred in the funds' aggregate totals since the most recent data was provided, public plan sponsors tend to be long-term investors that rarely make substantial changes to their portfolio holdings.

Using the investment portfolio of the "Retirement Systems of Alabama," dated December 31, 2003, as an example, our report finds that the fund was invested in 133 companies that are doing business in terrorist-sponsoring states. The total "Amount Invested" in these companies by that pension fund was $2,418,088,117.26. (The analysis for the "Retirement Systems of Alabama" can be found on p.11.) It is likely the case that these numbers have not dramatically changed over the past eight months, as investment patterns tend to be fairly stable. It is possible, however, that these totals may have changed somewhat due to the fact that stock prices can fluctuate on a daily basis and modest investment adjustments are sometimes made by fund managers. For the purposes of this study, we have assumed that currently unavailable, up-to-the-minute data will not differ appreciably from that in hand.

A number of pension systems were not forthcoming with their investment portfolios, despite the fact that they are *public* entities and, in many cases, state law requires them to make available such information when requested. For example, the Detroit Police and Firemen Retirement System refused to recognize the submission of a public records request and never provided data. Similarly, a representative of the Tennessee Consolidated Retirement System questioned why the portfolio holdings of public employees are relevant to the public and chose not to return subsequent phone calls. The State of Georgia offered several obstacles, including an initial claim that they were simply too busy to send their portfolio, but one could come to their offices in-person to inspect the records. They subsequently stated that no copies could leave the premises if a representative came to review the state's public portfolios. The Utah State Retirement System flatly refused to provide any data whatsoever, citing fund policy.

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[11] Although Cuba is also correctly listed as a state-sponsor of terrorism by the U.S. Department of State, relevant data for Cuba was not available for this study.

[12] As of the time of completion of this report, thirteen of the Top 100 public pension systems had not provided their portfolios, including two federal systems that invest on behalf of this country's armed services.

Running the Pension Fund Portfolios

Once the portfolios from each public pension system were obtained, the data was forwarded to Conflict Securities Advisory Group, Inc. (CSAG), an independent and impartial Washington-based risk assessment firm that specializes in identifying and assessing companies with ties to terrorist-sponsoring states and proliferation-related activities. CSAG ran the portfolios against their *Global Security Risk Monitor*, a commercial software product offered on a subscription basis by CSAG and the Investor Responsibility Research Center, and provided the requested results to the Center. Among the subscribers to the *Global Security Risk Monitor* are leading institutional investors, such as New York City's Police and Fire Fighter Funds, and the governments of the United States and Japan. **The Center's use of this data and the views and policy recommendations expressed herein do not necessarily reflect those of CSAG or its partner company**.

State Fund Analyses

Each fund analysis uses the same user-friendly template to show the results of our analysis. The section entitled "Exposure Levels" indicates the number of companies in which the fund in question is invested that are doing business in terrorist-sponsoring states, and the total amount invested by the fund in those companies. It provides similar information regarding the fund's investments in companies that have been linked to proliferation-related concerns. For example, the "Retirement Systems of Alabama" is invested in 133 companies that are active in terrorist-sponsoring states and 16 that have been linked to proliferation-related concerns. It has invested approximately $2.7 billion in these companies. The pie chart to the right of "Exposure Levels" indicates the percentage the holdings in such companies represent of the fund's total equity assets under management. In the case of Alabama, that $2.7 billion represents roughly 21 percent of the fund's total equity holdings.

Each fund analysis is based on the equity, or stock, holdings of each fund and does not take into account any other investment categories such as debt, currency or other holdings. Accordingly, Alabama likely has much more than $66,806,092,128.97 in assets under management when the fund's investments in bonds and other investment vehicles are included. Although it is possible that each fund has investments in the debt of companies with ties to terrorist-sponsoring states, for simplicity's sake, this report focuses solely on equity investments.

It is likewise the case that many of the public pension systems invest in equity indices. This investment strategy entails the purchase of an "index" or basket of stocks via a fund manager. As the composition of indices is, at times, proprietary and in other instances not accessible via state records, this report does not account for investments in companies that are active in terrorist-sponsoring states that are made via an index fund. As a result, it is probable that many of the pension systems covered in this report are *even more heavily* invested in companies active in terrorist-sponsoring states than the data used in this report indicates.

The section entitled "Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States" is designed to illustrate the critical role played by these companies – owned in large part by the public employees on whose behalf each fund invests – in the economies of these countries.

To underscore the importance of this section of the report, consider the following: The "Retirement Systems of Alabama" are invested in companies **with an estimated $29 billion worth of projects**

in these countries. By contrast, since 9/11, the U.S. government has successfully interdicted **approximately $130 million in terrorist-funding**. Were the public pension systems of this country to persuade state-sponsors of terror no longer to support such activity or, alternatively, to persuade companies to stop doing business with terrorist-sponsoring Iran, Libya, Syria, and Sudan, those regimes would experience a far greater cost than $130 million in lost revenues. Perhaps *billions* of dollars of infrastructure investments would be foregone.

The section entitled "Companies Held by [Name of the Fund] With Ties To:" identifies in which terrorist-sponsoring states these portfolio companies have business operations. In the case of Alabama, its 133 portfolio companies with such business links have done business with Iran, Saddam's Iraq, Libya, North Korea, Sudan and Syria**.** (N.B. The numbers in this section often exceed the number of companies cited under the "Exposure Levels" heading because many of those companies have business activities in more than one terrorist-sponsoring state.)

Finally, the "Sample Holdings" section provides examples of those companies held by the fund (including the amount invested in each) that are illustrative of the Center's concerns about corporate ties to terrorist-sponsoring states and the need for Americans to commit to taking action on this new front in the financial war on terrorism. Further information on such companies is available at www.DivestTerror.org.

THE TOP 100 PUBLIC PENSION SYSTEMS

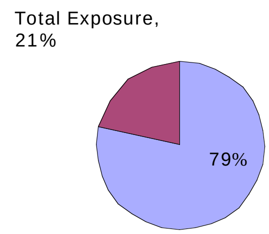
ALABAMA

The Retirement Systems of Alabama (RSA)
135 South Union Street
P.O. Box 2150
Montgomery, AL 36130-2150
(334) 241-0675

Exposure Levels

		Amount Invested
Companies held by RSA with Ties to Terrorist-Sponsoring States:	133	$2,418,088,117.26
Companies held by RSA with Ties to Proliferation-Related Concerns:	16	$336,215,507.55
Total Exposure:	149	$2,754,303,624.81

Total Holdings vs. Total Exposure



Total RSA Assets Under Management in Equities:

$12,860,483,905.95

This graph illustrates that 21% of RSA's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 133 Companies that RSA is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$29,951,520,000

Companies Held by RSA with Ties to:

	Number of Companies
Iran	95
Saddam's Iraq	23
Libya	36
North Korea	11
Sudan	35
Syria	37

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$4,863,201.80
Total SA	$38,183,579.74
UBS AG	$25,630,730.22
Technip	$862,003.20
Siemens AG	$20,690,657.55

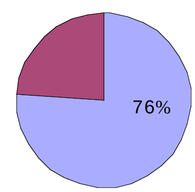
ALASKA

Alaska State Pension Investment Board (ASPIB)
333 Willoughby Avenue, 11th Floor
P.O. Box 110405
Juneau, AK 99811-0405
(907) 465-4399

Exposure Levels

		Amount Invested
Companies held by ASPIB with Ties to Terrorist-Sponsoring States:	98	$1,471,137,528.24
Companies held by ASPIB with Ties to Proliferation-Related Concerns:	16	$172,385,530.81
Total Exposure:	114	$1,643,523,059.05

Total Holdings vs. Total Exposure



Total ASPIB Assets Under Management in Equities:

$6,907,919,500.23

This graph illustrates that 24% of ASPIB' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 98 Companies that ASPIB is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$27,584,340,000

Companies Held by ASPIB with Ties to:

	Number of Companies
Iran	68
Saddam's Iraq	16
Libya	22
North Korea	8
Sudan	25
Syria	34

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$10,311,624.41
ENI	$21,828,646.49
Statoil ASA	$6,566,211.76
Total SA	$30,883,140.72
UBS AG	$19,444,609.79

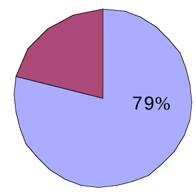
ARIZONA

Arizona State Retirement System (ASRS)
3300 North Central Avenue, 14th Floor
Phoenix, AZ 85067-2501
(602) 240-2180

Exposure Levels

		Amount Invested
Companies held by ASRS with Ties to Terrorist-Sponsoring States:	122	$3,151,340,528.38
Companies held by ASRS with Ties to Proliferation-Related Concerns:	5	$22,791,462.11
Total Exposure:	127	$3,174,131,990.49

Total Holdings vs. Total Exposure



This graph illustrates that 21% of ASRS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 122 Companies that ASRS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$19,048,550,000

Companies Held by ASRS with Ties to:

	Number of Companies
Iran	89
Saddam's Iraq	21
Libya	25
North Korea	11
Sudan	30
Syria	41

Sample Holdings

Company Name	Total Exposure
Technip	$440,796.40
Alcatel	$22,895,952.00
Total SA	$28,173,834.41
UBS AG	$39,134,272.34
Siemens AG	$15,564,182.40

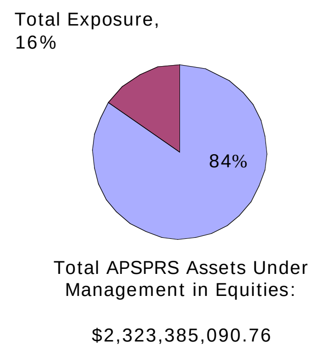
ARIZONA

Arizona Public Safety Personnel Retirement System (APSPRS)
1020 East Missouri Avenue
Phoenix, AZ 85014-2613
(602) 255-5575

Exposure Levels

		Amount Invested
Companies held by APSPRS with Ties to Terrorist-Sponsoring States:	10	$289,884,494.80
Companies held by APSPRS with Ties to Proliferation-Related Concerns:	3	$70,408,000.00
Total Exposure:	13	$360,292,494.80

Total Holdings vs. Total Exposure



This graph illustrates that 16% of APSPRS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 10 Companies that APSPRS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$406,515,000

Companies Held by APSPRS with Ties to:

	Number of Companies
Iran	4
Saddam's Iraq	3
Libya	3
North Korea	1
Sudan	4
Syria	2

Sample Holdings

Company Name	Total Exposure
NONE	

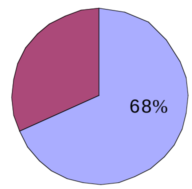
ARKANSAS

Arkansas State Teachers Retirement System (ASTRS)
1400 West Third Street
Little Rock, AR 72201
(501) 682-1517

Exposure Levels

		Amount Invested
Companies held by ASTRS with Ties to Terrorist-Sponsoring States:	147	$1,168,142,434.92
Companies held by ASTRS with Ties to Proliferation-Related Concerns:	10	$46,183,711.37
Total Exposure:	157	$1,214,326,146.29

Total Holdings vs. Total Exposure



Total ASTRS Assets Under Management in Equities:

$3,837,181,557.12

This graph illustrates that 32% of ASTRS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 147 Companies that ASTRS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$39,667,405,000

Companies Held by ASTRS with Ties to:

	Number of Companies
Iran	115
Saddam's Iraq	28
Libya	39
North Korea	14
Sudan	38
Syria	43

Sample Holdings

Company Name	Total Exposure
Statoil ASA	$292,132.64
ENI	$12,667,205.52
Technip SA	$7,000,121.68
Total SA	$55,740,129.05
UBS AG	$38,049,196.82

ARKANSAS

*Arkansas Public Employees Retirement System (APERS)**
124 West Capitol Avenue
Little Rock, AR 72201-1049
(501) 682-7800

**The Arkansas Public Employees Retirement System declined to provide records regarding their investment portfolios. According to the fund, these records are only available upon request by residents of the State of Arkansas.*

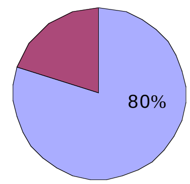
CALIFORNIA

California Public Employees Retirement System (CalPERS)
400 P Street, Room 3492
P.O. Box 2749
Sacramento, CA 95812-2749
(916) 326-3400

Exposure Levels

		Amount Invested
Companies held by CalPERS with Ties to Terrorist-Sponsoring States:	201	$17,464,483,029.71
Companies held by CalPERS with Ties to Proliferation-Related Concerns:	24	2,136,675,203.06
Total Exposure:	225	$19,601,158,232.77

Total Holdings vs. Total Exposure



Total CalPERS Assets Under Management in Equities:

$86,135,240,164.35

This graph illustrates that 20% of CalPERS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 201 Companies that CalPERS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$41,908,780,000

Companies Held by CalPERS with Ties to:

	Number of Companies
Iran	144
Saddam's Iraq	33
Libya	50
North Korea	21
Sudan	44
Syria	54

Sample Holdings

Company Name	Total Exposure
Hyundai Heavy Industries	$492,844.37
ENI	$232,201,445.65
Technip	$11,703,253.85
Total SA	$419,893,940.73
UBS AG	$303,755,817.44

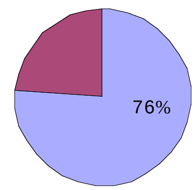
CALIFORNIA

California State Teachers Retirement System (CalSTRS)
7667 Folsom Boulevard, Suite 250
P.O. Box 163749
Sacramento, CA 95816-3749
(916) 229-3739

Exposure Levels

		Amount Invested
Companies held by CalSTRS with Ties to Terrorist-Sponsoring States:	195	$12,823,030,000
Companies held by CalSTRS with Ties to Proliferation-Related Concerns:	20	$1,500,438,000.00
Total Exposure:	215	$14,323,468,000.00

Total Holdings vs. Total Exposure



Total CalSTRS Assets Under Management in Equities:

$59,751,240,000.00

This graph illustrates that 24% of CalSTRS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 195 Companies that CalSTRS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$45,798,680,000

Companies Held by CalSTRS with Ties to:

	Number of Companies
Iran	139
Saddam's Iraq	31
Libya	46
North Korea	17
Sudan	48
Syria	52

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$37,557,000.00
Technip	$2,667,000.00
ENI	$175,609,000.00
Hyundai Heavy Industries	$2,156,000.00
Total SA	$327,280,000.00

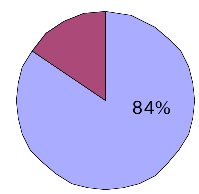
CALIFORNIA

Los Angeles County Employees' Retirement (LACER)
300 North Lake Avenue, Suite 850
Pasadena, CA 91101-4106
(626) 564-6000

Exposure Levels

		Amount Invested
Companies held by LACER with Ties to Terrorist-Sponsoring States:	105	$2,011,504,161.76
Companies held by LACER with Ties to Proliferation-Related Concerns:	17	$360,434,793.41
Total Exposure:	122	$2,371,938,955.16

Total Holdings vs. Total Exposure



Total LACER Assets Under Management in Equities:

$15,154,561,495.04

This graph illustrates that 16% of LACER total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 105 Companies that LACER is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$20,231,020,000

Companies Held by LACER with Ties to:

	Number of Companies
Iran	75
Saddam's Iraq	21
Libya	24
North Korea	11
Sudan	29
Syria	39

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$3,501,967.31
BNP Paribas	$24,238,863.66
Statoil ASA	$9,688,949.63
Total SA	$22,939,178.51
UBS AG	$7,165,068.69

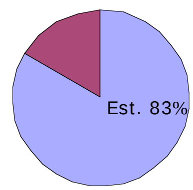
CALIFORNIA

City & County/San Francisco Employees Retirement (SFER)
30 Van Ness Avenue
Suite 3000
San Francisco, CA 94102
(415) 487-7001

Exposure Levels

		Amount Invested
Companies held by SFER with Ties to Terrorist-Sponsoring States:	120	$923,402,854.01
Companies held by SFER with Ties to Proliferation-Related Concerns:	14	$82,006,663.03
Total Exposure:	134	$1,005,409,517.04

Total Holdings vs. Total Exposure



Total SFER Assets Under Management in Equities:

Est. $6,000,000,000.00

This graph illustrates that an estimated 17% of SFER's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 120 Companies that SFER is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$25,179,200,000

Companies Held by SFER with Ties to:

	Number of Companies
Iran	86
Saddam's Iraq	16
Libya	31
North Korea	10
Sudan	31
Syria	31

Sample Holdings

Company Name	Total Exposure
BNP Paribas	$17,883,833.60
ENI	$12,594,757.98
Statoil ASA	$3,904,465.04
Total SA	$14,710,969.99
UBS AG	$9,957,925.77

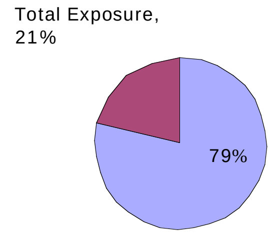
CALIFORNIA

Los Angeles Fire & Police Pension (LAFPP)
360 East Second Street, Suit 400
Los Angeles, CA 90012-4207
(213) 978-4465

Exposure Levels

		Amount Invested
Companies held by LAFPP with Ties to Terrorist-Sponsoring States:	91	$1,262,941,980.69
Companies held by LAFPP with Ties to Proliferation-Related Concerns:	14	$146,112,288.34
Total Exposure:	105	$1,409,054,269.03

Total Holdings vs. Total Exposure



Total LAFPP Assets Under Management in Equities:

$6,714,489,205.21

This graph illustrates that 21% of LAFPP's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 91 Companies that LAFPP is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$27,054,680,000

Companies Held by LAFPP with Ties to:

	Number of Companies
Iran	64
Saddam's Iraq	14
Libya	26
North Korea	8
Sudan	26
Syria	30

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$13,378,207.51
ENI SPA	$17,381,179.57
Statoil ASA	$2,762,354.43
Total SA	$20,098,944.95
UBS AG	$8,299,666.48

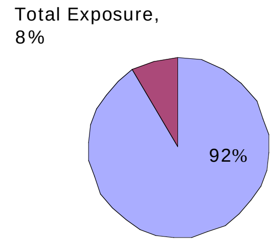
CALIFORNIA

Los Angeles City Employees' Retirement (LACER)
360 East Second Street, 8th Floor
Los Angeles, CA 90012-4207
(213) 473-7124

Exposure Levels

		Amount Invested
Companies held by LACER with Ties to Terrorist-Sponsoring States:	35	$237,135,833.04
Companies held by LACER with Ties to Proliferation-Related Concerns:	12	$58,927,706.00
Total Exposure:	47	$296,063,539.04

Total Holdings vs. Total Exposure



Total LACER Assets Under Management in Equities:

$3,572,333,831.00

This graph illustrates that 8% of LACER's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 47 Companies that LACER is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$2,199,825,000

Companies Held by LACER with Ties to:

	Number of Companies
Iran	18
Saddam's Iraq	4
Libya	7
North Korea	3
Sudan	11
Syria	13

Sample Holdings

Company Name	Total Exposure
NONE	

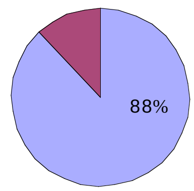
CALIFORNIA

San Diego City Employees Retirement System (SDCERS)
401 B Street, Suite 400
San Diego, CA 92101-4298
(619) 533-4660

Exposure Levels

		Amount Invested
Companies held by SDCERS with Ties to Terrorist-Sponsoring States:	53	$156,306,998.19
Companies held by SDCERS with Ties to Proliferation-Related Concerns:	12	$34,776,137.22
Total Exposure:	65	$191,083,135.41

Total Holdings vs. Total Exposure



Total SDCERS Assets Under Management in Equities:

$1,613,699,526.61

This graph illustrates that 12% of SDCERS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 53 Companies that SDCERS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$37,411,080,000

Companies Held by SDCERS with Ties to:

	Number of Companies
Iran	30
Saddam's Iraq	9
Libya	14
North Korea	6
Sudan	15
Syria	19

Sample Holdings

Company Name	Total Exposure
BNP Paribas	$2,653,602.30
Alcatel	$4,078,585.93
Total SA	$7,348,423.63
UBS AG	$4,341,666.87

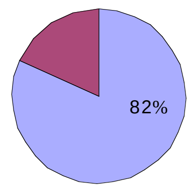
COLORADO

Colorado Public Employees Retirement Association (CoPERA)
1300 Logan Street
Suite 500
Denver, CO 80203-2309
(303) 832-9550

Exposure Levels

		Amount Invested
Companies held by CoPERA with Ties to Terrorist-Sponsoring States:	112	$2,805,335,347.72
Companies held by CoPERA with Ties to Proliferation-Related Concerns:	13	$272,992,347.93
Total Exposure:	125	$3,078,327,695.65

Total Holdings vs. Total Exposure



Total CoPERA Assets Under Management in Equities:

$16,688,020,154.35

This graph illustrates that 18% of CoPERA's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 112 Companies that CoPERA is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$27,967,015,000

Companies Held by CoPERA with Ties to:

	Number of Companies
Iran	77
Saddam's Iraq	16
Libya	24
North Korea	12
Sudan	29
Syria	37

Sample Holdings

Company Name	Total Exposure
ENI	$31,660,138.54
Siemens AG	$18,224,546.87
Total SA	$89,858,064.32
UBS AG	$41,429,822.76

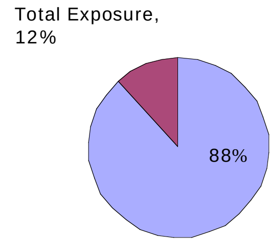
COLORADO

Fire & Police Pension Association of Colorado (FPPAC)
5290 DTC Parkway
Greenwood Village, CO 80111-2721
(303) 770-3772

Exposure Levels

		Amount Invested
Companies held by FPPAC with Ties to Terrorist-Sponsoring States:	136	$150,778,913.71
Companies held by FPPAC with Ties to Proliferation-Related Concerns:	7	$11,503,904.87
Total Exposure:	134	$162,282,818.58

Total Holdings vs. Total Exposure



Total FPPAC Assets Under Management in Equities:

$1,393,779,494.51

This graph illustrates that 12% of FPPAC's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 136 Companies that FPPAC is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$28,433,845,000

Companies Held by FPPAC with Ties to:

	Number of Companies
Iran	105
Saddam's Iraq	23
Libya	35
North Korea	10
Sudan	31
Syria	38

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$966,199.57
Siemens AG	$3,221,942.75
Technip	$60,930.01
Total SA	$6,409,910.63
UBS AG	$3,614,346.07

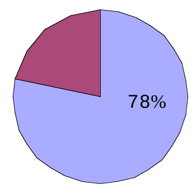
CONNECTICUT

State of Connecticut Trust Funds (SCTF)
55 Elm Street, 6th Floor
Pension Fund Management Division
Hartford, CT 06106-1773
(860) 702-3167

Exposure Levels

		Amount Invested
Companies held by SCTF with Ties to Terrorist-Sponsoring States:	127	$1,820,047,169.41
Companies held by SCTF with Ties to Proliferation-Related Concerns:	15	$326,359,414.06
Total Exposure:	142	$2,146,406,583.47

Total Holdings vs. Total Exposure



Total SCTF Assets Under Management in Equities:

$17,195,350,480.90

This graph illustrates that 22% of SCTF's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 127 Companies that SCTF is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$28,533,280,000

Companies Held by SCTF with Ties to:

	Number of Companies
Iran	92
Saddam's Iraq	23
Libya	34
North Korea	15
Sudan	34
Syria	32

Sample Holdings

Company Name	Total Exposure
Hyundai Heavy Industries	$410,425.69
Alcatel	$3,485,915.07
BNP Paribas	$25,307,601.33
Total SA	$60,184,321.88
Statoil ASA	$7,968,378.40

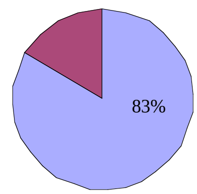
DELAWARE

The State of Delaware Pension Plans (SDPB)
540 South DuPont Highway
Thomas Collins Building, Suite 1
Dover, DE 19901-4523
(302) 739-4208

Exposure Levels

		Amount Invested
Companies held by SDPB with Ties to Terrorist-Sponsoring States:	40	$275,369,499.50
Companies held by SDPB with Ties to Proliferation-Related Concerns:	3	$12,024,059.51
Total Exposure:	43	$287,393,559.01

Total Holdings vs. Total Exposure



Total SDPB Assets Under Management in Equities:

$1,722,612,634.36

This graph illustrates that 17% of SDPB's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 43 Companies that SDPB is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$22,151,735,000

Companies Held by SDPB with Ties to:

	Number of Companies
Iran	25
Saddam's Iraq	7
Libya	13
North Korea	3
Sudan	10
Syria	14

Sample Holdings

Company Name	Total Exposure
ENI	$6,532,134.00
Siemens AG	$2,574,599.51
Total SA	$15,986,270.80

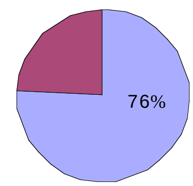
DISTRICT OF COLUMBIA

District of Columbia Retirement Board (DCRB)
1400 L Street, NW
Suite 300
Washington, DC 20005-3509
(202) 535-1271

Exposure Levels

		Amount Invested
Companies held by DCRB with Ties to Terrorist-Sponsoring States:	77	$387,187,517.54
Companies held by DCRB with Ties to Proliferation-Related Concerns:	13	$33,797,803.37
Total Exposure:	90	$420,985,320.91

Total Holdings vs. Total Exposure



Total DCRB Assets Under Management in Equities:

$1,731,575,827.49

This graph illustrates that 24% of DCRB's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 77 Companies that DCRB is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$25,136,240,000

Companies Held by DCRB with Ties to:

	Number of Companies
Iran	55
Saddam's Iraq	12
Libya	18
North Korea	9
Sudan	20
Syria	26

Sample Holdings

Company Name	Total Exposure
Siemens AG	$1,434,727.94
ENI	$7,916,519.12
Statoil ASA	$1,828,175.72
Total SA	$10,647,178.65
UBS AG	$10,724,517.13

FEDERAL

*Army & Air Force Exchange Service (AAFES)**
3911 South Walton Walker Boulevard
P.O. Box 650428 (FA-T)
Dallas, TX 75265-0428
(214) 312-2271

**The Army & Air Force Exchange Service failed to provide their investment portfolios prior to the publication of this report, despite the filing of a Freedom of Information Act and numerous indications from the fund that these records would be forthcoming.*

FEDERAL

*Federal Retirement Thrift Investment Board (FRTIB)**
1250 H Street, NW
Suite 400
Washington, DC 20005-3952
(202) 942-1620)

**The Federal Retirement Thrift Investment Board declined to provide records of their fund's investment portfolio. They offered insight into their investment approach and strategies, but refused to provide data on their fund's specific holdings.*

FEDERAL

*U.S. Army NAF Retirement Plan Trust (ANRPT)**
4700 King Street
3rd Floor
Alexandria, VA 22302-4407
(703) 681-7252

**Despite numerous phone calls to several employees of the U.S. Army NAF Retirement Plan Trust, the fund failed to respond or provide any information.*

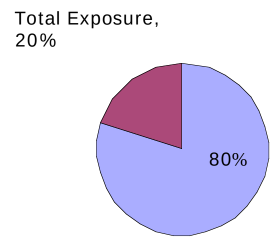
FLORIDA

Florida State Board of Administration (FSBA)
1801 Hermitage Boulevard
P.O. Box 13300
Tallahassee, FL 32317-3300
(850) 488-4406

Exposure Levels

		Amount Invested
Companies held by FSBA with Ties to Terrorist-Sponsoring States:	186	$10,742,258,260.73
Companies held by FSBA with Ties to Proliferation-Related Concerns:	20	$1,674,686,718.87
Total Exposure:	206	$12,416,944,979.60

Total Holdings vs. Total Exposure



Total FSBA Assets Under Management in Equities:

$62,490,673,019.37

This graph illustrates that 20% of FSBA's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 186 Companies that FSBA is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$39,284,720,000

Companies Held by FSBA with Ties to:

	Number of Companies
Iran	134
Saddam's Iraq	31
Libya	43
North Korea	15
Sudan	48
Syria	54

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$3,255,926.72
Statoil ASA	$10,180,766.18
Technip	$133,548.20
Total SA	$180,797,540.18
UBS AG	$119,611,304.05

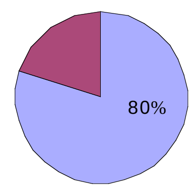
FLORIDA

Tampa Police & Fire Pension Fund (TPFPT)
3001 North Boulevard
Tampa, FL 33603
(813) 274-8550

Exposure Levels

		Amount Invested
Companies held by TPFPT with Ties to Terrorist-Sponsoring States:	12	$118,130,338.00
Companies held by TPFPT with Ties to Proliferation-Related Concerns:	4	$48,022,390.00
Total Exposure:	16	$166,152,728.00

Total Holdings vs. Total Exposure



Total TPFPT Assets Under Management in Equities:

$839,108,718.00

This graph illustrates that 20% of TPFPT's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 12 Companies that TPFPT is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$1,350,000,000

Companies Held by TPFPT with Ties to:

	Number of Companies
Iran	7
Saddam's Iraq	3
Libya	1
North Korea	2
Sudan	6
Syria	5

Sample Holdings

Company Name	Total Exposure
NONE	

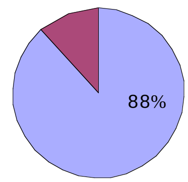
FLORIDA

Miami Firefighters & Police Retirement Trust (MFPRT)
2828 Coral Way
Suite 101
Miami, FL 33145-3214
(305) 461-7060

Exposure Levels

		Amount Invested
Companies held by MFPRT with Ties to Terrorist-Sponsoring States:	55	$77,057,641.79
Companies held by MFPRT with Ties to Proliferation-Related Concerns:	8	$8,662,653.41
Total Exposure:	63	$85,720,295.20

Total Holdings vs. Total Exposure



Total MFPRT Assets Under Management in Equities:

$738,895,318.94

This graph illustrates that 12% of MFPRT's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 55 Companies that MFPRT is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$19,001,195,000

Companies Held by MFPRT with Ties to:

	Number of Companies
Iran	35
Saddam's Iraq	10
Libya	16
North Korea	7
Sudan	21
Syria	25

Sample Holdings

Company Name	Total Exposure
ENI SPA	$1,965,950.40
Siemens AG	$1,051,640.00
Total SA	$1,526,708.60
UBS AG	$1,414,094.00

GEORGIA

*Teachers Retirement System of Georgia (TRSG)**
2 Northside 75 N.W.
Suite 500
Atlanta, GA 30318-7701
(404) 656-2151

**The Teachers Retirement System of Georgia refused to provide their investment portfolios. They have, however, offered documents for review in person at their Atlanta offices, without the option of taking copies off premises.*

GEORGIA

*Georgia Employees Retirement System (GERS)**
2 Northside 75 N.W.
Suite 500
Atlanta, GA 303018-7701
(404) 656-2151

**The Georgia Employees Retirement System refused to provide their investment portfolios. They have, however, offered documents for review in person at their Atlanta offices, without the option of taking copies off premises.*

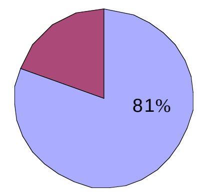
HAWAII

State of Hawaii Employees' Retirement System (SHERS)
City Financial Tower
201 Merchant Street, Suite 1400
Honolulu, HI 96813-2929
(808) 5861735

Exposure Levels

		Amount Invested
Companies held by SHERS with Ties to Terrorist-Sponsoring States:	66	$562,320,696.17
Companies held by SHERS with Ties to Proliferation-Related Concerns:	11	$52,516,595.43
Total Exposure:	77	$614,837,291.60

Total Holdings vs. Total Exposure



Total SHERS Assets Under Management in Equities:

$2,540,883,276.11

This graph illustrates that 19% of SHERS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 66 Companies that SHERS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$21,863,545,000

Companies Held by SHERS with Ties to:

	Number of Companies
Iran	47
Saddam's Iraq	8
Libya	16
North Korea	5
Sudan	17
Syria	21

Sample Holdings

Company Name	Total Exposure
ENI	$7,038,312.12
Total SA	$19,565,264.26
UBS AG	$14,266,574.47

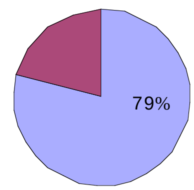
IDAHO

Public Employees Retirement System of Idaho (PERSI)
607 N. Eighth Street
Boise, ID 83702-5518
(208) 334-3365

Exposure Levels

		Amount Invested
Companies held by PERSI with Ties to Terrorist-Sponsoring States:	187	$983,124,076.64
Companies held by PERSI with Ties to Proliferation-Related Concerns:	20	$123,239,779.29
Total Exposure:	207	$1,106,363,855.93

Total Holdings vs. Total Exposure



Total PERSI Assets Under Management in Equities:

$5,272,911,962.98

This graph illustrates that 21% of PERSI's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 187 Companies that PERSI is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$29,591,130,000

Companies Held by PERSI with Ties to:

	Number of Companies
Iran	135
Saddam's Iraq	33
Libya	44
North Korea	17
Sudan	45
Syria	57

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$12,736,231.90
Siemens AG	$7,104,095.25
Statoil ASA	$155,051.01
Total SA	$27,034,876.05
UBS AG	$16,523,662.34

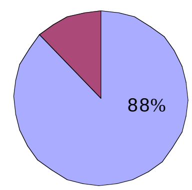
ILLINOIS

Illinois State Teachers' Retirement System (ISTRS)
2815 West Washington Street
P.O. Box 19253
Springfield, IL 62794-9253
(217) 753-0370

Exposure Levels

		Amount Invested
Companies held by ISTRS with Ties to Terrorist-Sponsoring States:	106	$2,056,743,732.57
Companies held by ISTRS with Ties to Proliferation-Related Concerns:	13	$233,699,179.13
Total Exposure:	119	$2,290,442,911.70

Total Holdings vs. Total Exposure



Total ISTRS Assets Under Management in Equities:

$18,622,568,487.70

This graph illustrates that 12% of ISTRS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 106 Companies that ISTRS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$19,897,965,000

Companies Held by ISTRS with Ties to:

	Number of Companies
Iran	75
Saddam's Iraq	21
Libya	23
North Korea	11
Sudan	32
Syria	41

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$15,918,382.65
Statoil ASA	$14,368,864.46
Total SA	$54,168,732.55
UBS AG	$24,779,548.66
Siemens AG	$8,148,103.04

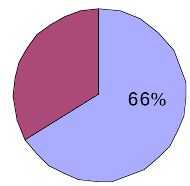
ILLINOIS

Illinois Municipal Retirement Fund (IMRF)
2211 York Road
Suite 500
Oak Brook, IL 60523-2337
(630) 368-5345

Exposure Levels

		Amount Invested
Companies held by IMRF with Ties to Terrorist-Sponsoring States:	60	$631,065,489.16
Companies held by IMRF with Ties to Proliferation-Related Concerns:	3	$35,377,323.26
Total Exposure:	63	$666,442,812.42

Total Holdings vs. Total Exposure



Total IMRF Assets Under Management in Equities:

$1,968,925,675.18

This graph illustrates that 34% of IMRF's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 60 Companies that IMRF is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$13,735,799,000

Companies Held by IMRF with Ties to:

	Number of Companies
Iran	50
Saddam's Iraq	10
Libya	9
North Korea	7
Sudan	11
Syria	16

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$11,656,224.37
Siemens AG	$11,766,061.46
Total SA	$15,061,248.88
UBS AG	$22,021,452.11

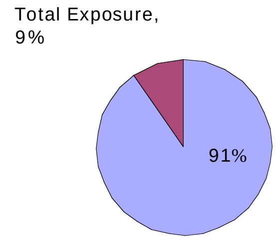
ILLINOIS

State Universities Retirement System of Illinois (SURSI)
1901 Fox Drive
Champaign, IL 61820-7333
(217) 378-8800

Exposure Levels

		Amount Invested
Companies held by SURSI with Ties to Terrorist-Sponsoring States:	112	$644,654,857.60
Companies held by SURSI with Ties to Proliferation-Related Concerns:	18	$52,681,395.86
Total Exposure:	130	$697,336,253.46

Total Holdings vs. Total Exposure



Total SURSI Assets Under Management in Equities:

$7,389,250,087.45

This graph illustrates that 9% of SURSI's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 112 Companies that SURSI is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$23,827,305,000

Companies Held by SURSI with Ties to:

	Number of Companies
Iran	80
Saddam's Iraq	22
Libya	27
North Korea	12
Sudan	31
Syria	41

Sample Holdings

Company Name	Total Exposure
Alcatel	$627,218.24
BNP Paribas	$10,357,830.82
ENI	$9,627,164.83
Total SA	$5,238,775.38
UBS AG	$13,969,673.68

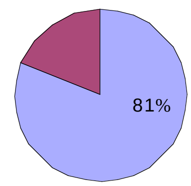
ILLINOIS

Public School Teachers Pension & Retirement Fund/Chicago (PSTPRF)
55 West Wacker Drive
Chicago, IL 60601-1609
(312) 641-4464

Exposure Levels

		Amount Invested
Companies held by PSTPRF with Ties to Terrorist-Sponsoring States:	72	$944,297,958.97
Companies held by PSTPRF with Ties to Proliferation-Related Concerns:	11	$75,117,227.65
Total Exposure:	83	$1,019,415,186.62

Total Holdings vs. Total Exposure



Total PSTPRF Assets Under Management in Equities:

$5,397,081,255.54

This graph illustrates that 19% of PSTPRF's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 72 Companies that PSTPRF is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$12,863,765,000

Companies Held by PSTPRF with Ties to:

	Number of Companies
Iran	51
Saddam's Iraq	9
Libya	16
North Korea	6
Sudan	19
Syria	29

Sample Holdings

Company Name	Total Exposure
BNP Paribas	$7,107,403.36
Siemens AG	$6,788,046.07
Statoil ASA	$1,299,092.61
Total SA	$28,815,467.77
UBS AG	$16,940,005.53

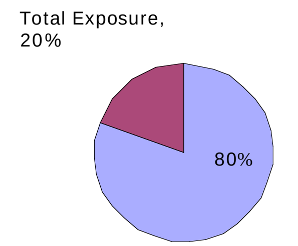
ILLINOIS

Illinois State Board of Investment (ISBI)
180 North LaSalle
Suite 2015
Chicago, IL 60601-2606
(312) 793-5718

Exposure Levels

		Amount Invested
Companies held by ISBI with Ties to Terrorist-Sponsoring States:	108	$888,494,553.00
Companies held by ISBI with Ties to Proliferation-Related Concerns:	13	$92,609,684.00
Total Exposure:	121	$981,104,237.00

Total Holdings vs. Total Exposure



Total ISBI Assets Under Management in Equities:

$4,951,871,240.00

This graph illustrates that 20% of ISBI total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 108 Companies that ISBI is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$23,989,400,000

Companies Held by ISBI with Ties to:

	Number of Companies
Iran	82
Saddam's Iraq	16
Libya	25
North Korea	7
Sudan	27
Syria	32

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$540,876.00
ENI	$4,024,263.00
Statoil ASA	$1,135,702.00
Total SA	$19,264,338.00
UBS AG	$1,446,811.00

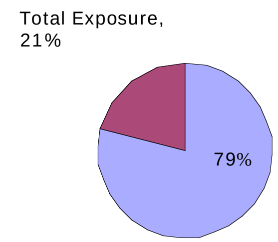
ILLINOIS

Chicago Policemen's Annuity & Benefit Fund (CPABF)
221 N. LaSalle
Suite 1626
Chicago, IL 60601-1404
(312) 744-3891

Exposure Levels

		Amount Invested
Companies held by CPABF with Ties to Terrorist-Sponsoring States:	63	$149,412,758.81
Companies held by CPABF with Ties to Proliferation-Related Concerns:	4	$8,723,591.00
Total Exposure:	67	$158,136,349.81

Total Holdings vs. Total Exposure



Total CPABF Assets Under Management in Equities:

$747,704,417.90

This graph illustrates that 21% of CPABF total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 63 Companies that CPABF is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$16,476,260,000

Companies Held by CPABF with Ties to:

	Number of Companies
Iran	52
Saddam's Iraq	13
Libya	13
North Korea	6
Sudan	17
Syria	23

Sample Holdings

Company Name	Total Exposure
BNP Paribas	$4,272,565.66
Siemens AG	$1,219,841.69
Statoil ASA	$1,193,138.09
Total SA	$3,290,113.56
UBS AG	$3,251,547.65

ILLINOIS

*Chicago Firemen's Annuity & Benefit Fund (CFABF)**
1 North Franklin Street
Suite 2550
Chicago, IL 60606-3487
(312) 726-5823

**Despite repeated attempts to contact the Chicago Firemen's Annuity & Benefit Fund via phone calls, e-mails and faxes, the individual responsible for processing "open records" requests declined to respond or provide data on the fund's investment portfolios.*

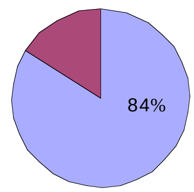
INDIANA

Public Employees' Retirement Fund of Indiana (PERFI)
143 West Market Street
Harrison Building, Suite 500
Indianapolis, IN 46204-2824
(317) 233-4133

Exposure Levels

		Amount Invested
Companies held by PERFI with Ties to Terrorist-Sponsoring States:	160	$957,698,913.21
Companies held by PERFI with Ties to Proliferation-Related Concerns:	15	$131,758,954.80
Total Exposure:	175	$1,089,457,868.02

Total Holdings vs. Total Exposure



Total PERFI Assets Under Management in Equities:

$6,750,891,873.26

This graph illustrates that 16% of PERFI's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 160 Companies that PERFI is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$40,630,365,000

Companies Held by PERFI with Ties to:

	Number of Companies
Iran	120
Saddam's Iraq	27
Libya	42
North Korea	12
Sudan	43
Syria	49

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$8,764,662.56
BNP Paribas	$5,466,545.93
Statoil ASA	$2,920,596.15
Total SA	$12,073,956.93
UBS AG	$6,713,051.87

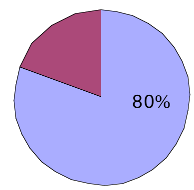
INDIANA

Indiana State Teachers Retirement Fund (ISTRF)
150 West Market Street
Suite 300
Indianapolis, IN 46204-2809
(317) 232-3874

Exposure Levels

		Amount Invested
Companies held by ISTRF with Ties to Terrorist-Sponsoring States:	158	$560,935,762.99
Companies held by ISTRF with Ties to Proliferation-Related Concerns:	13	$40,504,155.52
Total Exposure:	171	$601,439,918.51

Total Holdings vs. Total Exposure



Total ISTRF Assets Under Management in Equities:

$3,071,678,608.61

This graph illustrates that 20% of ISTRF's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 158 Companies that ISTRF is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$36,088,405,000

Companies Held by ISTRF with Ties to:

	Number of Companies
Iran	117
Saddam's Iraq	27
Libya	39
North Korea	14
Sudan	42
Syria	47

Sample Holdings

Company Name	Total Exposure
ENI	$8,921,072.53
Statoil ASA	$396,227.85
Technip	$188,263.50
Total SA	$16,439,887.82
UBS AG	$12,242,797.93

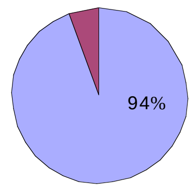
IOWA

Iowa Public Employees' Retirement System (IPERS)
7401 Register Drive
P.O. Box 9117
Des Moines, IA 50306-9117
(515) 281-0030

Exposure Levels

		Amount Invested
Companies held by IPERS with Ties to Terrorist-Sponsoring States:	36	$355,478,938.66
Companies held by IPERS with Ties to Proliferation-Related Concerns:	4	$27,868,456.33
Total Exposure:	40	$383,347,394.99

Total Holdings vs. Total Exposure



Total IPERS Assets Under Management in Equities:

$6,898,609,300.79

This graph illustrates that 6% of IPERS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 36 Companies that IPERS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$12,950,925,000

Companies Held by IPERS with Ties to:

	Number of Companies
Iran	25
Saddam's Iraq	10
Libya	8
North Korea	4
Sudan	12
Syria	16

Sample Holdings

Company Name	Total Exposure
Total SA	$17,081,862.00
UBS AG	$8,005,830.00

IOWA

*Iowa Municipal Fire & Police Retirement System (IMFPRS)**
2836 – 104th Street
Des Moines, IA 50322
(515) 254-9200

**Citing staffing insufficiencies, the Iowa Municipal Fire & Police Retirement System declined to provide information on the fund's investment portfolios.*

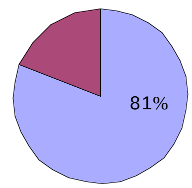
KANSAS

Kansas Public Employees Retirement System (KPERS)
611 South Kansas Avenue
Suite 100
Topeka, KS 66603-3803
(785) 296-6666

Exposure Levels

		Amount Invested
Companies held by KPERS with Ties to Terrorist-Sponsoring States:	162	$952,504,538.97
Companies held by KPERS with Ties to Proliferation-Related Concerns:	18	$93,283,362.94
Total Exposure:	180	$1,045,787,901.91

Total Holdings vs. Total Exposure



Total KPERS Assets Under Management in Equities:

$5,524,027,482.41

This graph illustrates that 19% of KPERS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 162 Companies that KPERS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$24,120,270,000

Companies Held by KPERS with Ties to:

	Number of Companies
Iran	121
Saddam's Iraq	25
Libya	40
North Korea	11
Sudan	39
Syria	45

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$1,882,558.06
Statoil ASA	$3,219,380.38
Technip	$128,496.97
Total SA	$48,461,591.23
UBS AG	$33,115,856.48

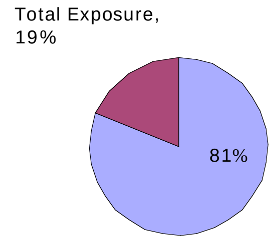
KENTUCKY

Kentucky Retirement Systems (KRS)
1260 Louisville Road
Frankfort, KY 40601-6124
(502) 564-4646

Exposure Levels

		Amount Invested
Companies held by KRS with Ties to Terrorist-Sponsoring States:	108	$1,370,295,976.65
Companies held by KRS with Ties to Proliferation-Related Concerns:	17	$74,139,824.29
Total Exposure:	125	$1,444,435,800.94

Total Holdings vs. Total Exposure



Total KRS Assets Under Management in Equities:

$7,627,978,114.70

This graph illustrates that 19% of KRS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 108 Companies that KRS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$26,210,125,000

Companies Held by KRS with Ties to:

	Number of Companies
Iran	75
Saddam's Iraq	17
Libya	24
North Korea	13
Sudan	28
Syria	35

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$3,224,103.16
ENI	$21,656,694.05
Statoil ASA	$3,397,709.16
Total SA	$45,004,330.97
UBS AG	$27,802,516.90

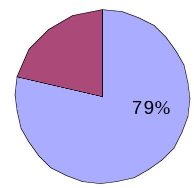
KENTUCKY

Teachers' Retirement System of Kentucky (TRSK)
479 Versailles Road
Frankfort, KY 40601-3868
(502) 848-8600

Exposure Levels

		Amount Invested
Companies held by TRSK with Ties to Terrorist-Sponsoring States:	35	$1,300,642,974.35
Companies held by TRSK with Ties to Proliferation-Related Concerns:	11	$233,330,076.77
Total Exposure:	46	$1,533,973,051.12

Total Holdings vs. Total Exposure



This graph illustrates that 21% of TRSK's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 35 Companies that TRSK is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$3,509,840,000

Companies Held by TRSK with Ties to:

	Number of Companies
Iran	19
Saddam's Iraq	5
Libya	10
North Korea	3
Sudan	13
Syria	13

Sample Holdings

Company Name	Total Exposure
NONE	

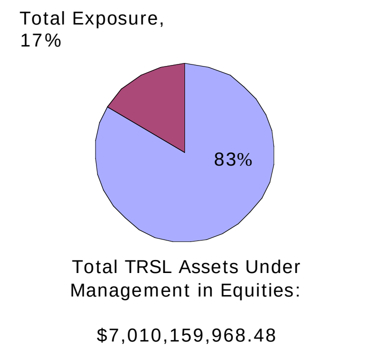
LOUISIANA

Teachers' Retirement System of Louisiana (TRSL)
8401 United Plaza Boulevard, 3rd Floor
P.O. Box 94123 Capital Station
Baton Rouge, LA 70804-9123
(225) 925-6446

Exposure Levels

		Amount Invested
Companies held by TRSL with Ties to Terrorist-Sponsoring States:	95	$1,032,560,125.96
Companies held by TRSL with Ties to Proliferation-Related Concerns:	19	$129,917,885.61
Total Exposure:	114	$1,162,478,011.57

Total Holdings vs. Total Exposure



This graph illustrates that 17% of TRSL's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 95 Companies that TRSL is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$17,823,940,000

Companies Held by TRSL with Ties to:

	Number of Companies
Iran	67
Saddam's Iraq	19
Libya	20
North Korea	6
Sudan	26
Syria	30

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$5,811,180.38
Statoil ASA	$5,463,710.17
Total SA	$13,187,231.18
UBS AG	$43,086,265.64
BNP Paribas	$5,107,279.17

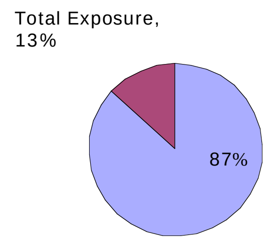
LOUISIANA

Louisiana State Employees' Retirement System (LSERS)
8401 United Plaza Boulevard, 1st Floor
P.O. Box 44213
Baton Rouge, LA 70804-4213
(225) 922-0600

Exposure Levels

		Amount Invested
Companies held by LSERS with Ties to Terrorist-Sponsoring States:	84	$464,363,610.51
Companies held by LSERS with Ties to Proliferation-Related Concerns:	16	$66,615,663.36
Total Exposure:	100	$530,979,273.87

Total Holdings vs. Total Exposure



Total LSERS Assets Under Management in Equities:

$3,994,003,148.59

This graph illustrates that 13% of LSERS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 84 Companies that LSERS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$25,614,060,000

Companies Held by LSERS with Ties to:

	Number of Companies
Iran	56
Saddam's Iraq	16
Libya	20
North Korea	7
Sudan	24
Syria	32

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$1,498,987.06
ENI	$5,132,918.89
Siemens AG	$2,224,160.04
Total SA	$4,476,021.04
UBS AG	$2,221,095.02

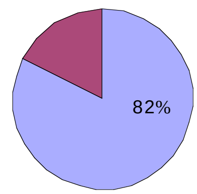
MAINE

Maine State Retirement System (MSRS)
Two Central Plaza
State House Station 46
Augusta, ME 04333
(207) 287-3461

Exposure Levels

		Amount Invested
Companies held by MSRS with Ties to Terrorist-Sponsoring States:	72	$199,211,219.00
Companies held by MSRS with Ties to Proliferation-Related Concerns:	8	$12,226,308.00
Total Exposure:	80	$211,437,527.00

Total Holdings vs. Total Exposure



Total MSRS Assets Under Management in Equities:

$1,205,304,346.00

This graph illustrates that 18% of MSRS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 72 Companies that MSRS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$25,308,385,000

Companies Held by MSRS with Ties to:

	Number of Companies
Iran	56
Saddam's Iraq	14
Libya	15
North Korea	3
Sudan	18
Syria	24

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$533,420.00
ENI	$4,932,009.00
Siemens AG	$188,088.00
Statoil AS	$191,442.00
UBS AG	$5,790,249.00

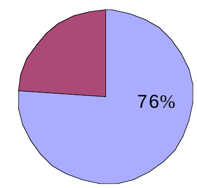
MARYLAND

Maryland State Retirement & Pension Systems (MSRPS)
120 E. Baltimore Street
16th Floor
Baltimore, MD 21202-2305
(410) 767-4050

Exposure Levels

		Amount Invested
Companies held by MSRPS with Ties to Terrorist-Sponsoring States:	89	$1,775,533,889.27
Companies held by MSRPS with Ties to Proliferation-Related Concerns:	12	$150,182,262.97
Total Exposure:	101	$1,925,716,152.24

Total Holdings vs. Total Exposure



This graph illustrates that 24% of MSRPS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 89 Companies that MSRPS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$28,314,890,000

Companies Held by MSRPS with Ties to:

	Number of Companies
Iran	70
Saddam's Iraq	20
Libya	17
North Korea	10
Sudan	26
Syria	32

Sample Holdings

Company Name	Total Exposure
Siemens AG	$7,695,852.13
ENI	$54,648,652.55
Statoil ASA	$7,419,702.59
Total SA	$59,572,122.97
UBS AG	$71,839,803.82

MARYLAND

*City of Baltimore Fire & Police Employees Retirement System (CBFPERS)**
Room 640, City Hall
100 Holliday Street
Baltimore, MD 21202
(410) 396-4740

**Citing staffing insufficiencies, the City of Baltimore Fire & Police Employees Retirement System declined to provide information on the fund's investment portfolios.*

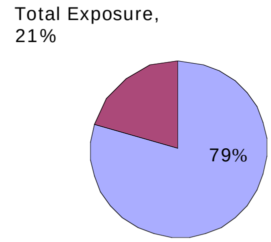
MASSACHUSETTS

MA Pensions Reserve Investment Management Board (MPRIMB)
84 State Street
Suite 250
Boston, MA 02109
(617) 946-8401

Exposure Levels

		Amount Invested
Companies held by MPRIMB with Ties to Terrorist-Sponsoring States:	178	$3,293,638,458.19
Companies held by MPRIMB with Ties to Proliferation-Related Concerns:	23	$426,960,948.74
Total Exposure:	201	$3,720,599,406.93

Total Holdings vs. Total Exposure



Total MPRIMB Assets Under Management in Equities:

$18,096,205,287.08

This graph illustrates that 21% of MPRIMB's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 178 Companies that MPRIMB is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$23,878,660,000

Companies Held by MPRIMB with Ties to:

	Number of Companies
Iran	130
Saddam's Iraq	29
Libya	42
North Korea	14
Sudan	45
Syria	49

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$18,422,823.80
Technip	$756,592.80
Statoil ASA	$9,395,434.99
Total SA	$41,894,585.11
UBS AG	$38,022,578.20

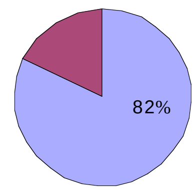
MASSACHUSETTS

Boston Retirement System (BRS)
Boston City Hall
Room 816
Boston, MA 02201
(617) 635-4313

Exposure Levels

		Amount Invested
Companies held by BRS with Ties to Terrorist-Sponsoring States:	137	$179,188,026.02
Companies held by BRS with Ties to Proliferation-Related Concerns:	13	$30,486,123.53
Total Exposure:	150	$209,674,149.55

Total Holdings vs. Total Exposure



Total BRS Assets Under Management in Equities:

$1,158,035,965.53

This graph illustrates that 18% of BRS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 137 Companies that BRS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$31,569,220,000

Companies Held by BRS with Ties to:

	Number of Companies
Iran	102
Saddam's Iraq	24
Libya	37
North Korea	12
Sudan	35
Syria	39

Sample Holdings

Company Name	Total Exposure
ENI	$4,274,622.15
Statoil ASA	$2,274,457.75
Total SA	$6,237,213.30
UBS AG	$1,485,826.80
Alcatel SA	$303,219.56

MICHIGAN

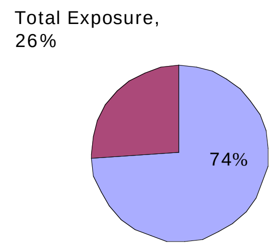
*State of Michigan (SoM)**
Office of Retirement Services
P.O. Box 30171
Lansing, MI 48901
(517) 322-5685

***The analysis below covers only the equity investments of the State of Michigan that are in U.S.-headquartered companies. The State's international portfolio reportedly comprises 10% of their overall equities, but is not available due to the manner in which it is invested.**

Exposure Levels

		Amount Invested
Companies held by SoM with Ties to Terrorist-Sponsoring States:	51	$4,806,459,000.00
Companies held by SoM with Ties to Proliferation-Related Concerns:	14	$869,017,000.00
Total Exposure:	65	$5,675,476,000.00

Total Holdings vs. Total Exposure



Total SoM Assets Under Management in Equities:

$21,686,985,000.00

This graph illustrates that 26% of SoM's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 51 Companies that SoM is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$9,538,280,000

Companies Held by SoM with Ties to:

	Number of Companies
Iran	32
Saddam's Iraq	8
Libya	14
North Korea	4
Sudan	16
Syria	18

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$190,000.00
Siemens AG	$1,111,000.00
Total SA	$2,223,000.00

MICHIGAN

*Detroit Police & Firemen Retirement System (DPFRS)**
2 Woodward Avenue, Room 908
Detroit, MI 48226
(313) 224-3362

**Despite "public records" and Freedom of Information Act requests, the Detroit Police & Firemen Retirement System refused to provide information regarding the fund's investment portfolio.*

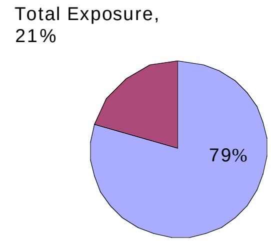
MINNESOTA

Minnesota State Board of Investment (MSBI)
Capital Professional Office Building
Suite 200, 590 Park Street
St. Paul, MN 55103
(651) 296-3328

Exposure Levels

		Amount Invested
Companies held by MSBI with Ties to Terrorist-Sponsoring States:	193	$4,308,262,097.04
Companies held by MSBI with Ties to Proliferation-Related Concerns:	20	$549,720,441.25
Total Exposure:	213	$4,857,982,538.29

Total Holdings vs. Total Exposure



Total MSBI Assets Under Management in Equities:

$23,211,317,916.77

This graph illustrates that 21% of MSBI's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 193 Companies that MSBI is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$42,296,080,000

Companies Held by MSBI with Ties to:

	Number of Companies
Iran	127
Saddam's Iraq	31
Libya	49
North Korea	15
Sudan	46
Syria	53

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$8,990,793.24
ENI	$47,169,566.69
Statoil ASA	$7,109,423.18
Total SA	$94,256,038.14
UBS AG	$47,579,846.60

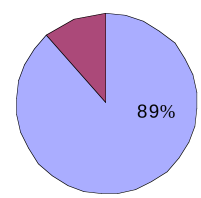
MINNESOTA

Minneapolis Teachers' Retirement Fund (MTRF)
730 Second Avenue South
815 Peavey Building
Minneapolis, MN 55402-2406
(612) 338-7865

Exposure Levels

		Amount Invested
Companies held by MTRF with Ties to Terrorist-Sponsoring States:	75	$41,847,870.00
Companies held by MTRF with Ties to Proliferation-Related Concerns:	7	$2,470,325.00
Total Exposure:	82	$44,318,195.00

Total Holdings vs. Total Exposure



Total MTRF Assets Under Management in Equities:

$392,612,226.00

This graph illustrates that 11% of MTRF's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 76 Companies that MTRF is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$21,210,190,000

Companies Held by MTRF with Ties to:

	Number of Companies
Iran	59
Saddam's Iraq	13
Libya	14
North Korea	5
Sudan	20
Syria	23

Sample Holdings

Company Name	Total Exposure
Siemens AG	$377,123.00
ENI	$1,200,676.00
Statoil ASA	$238,577.00
Total SA	$482,988.00
UBS AG	$729,941.00

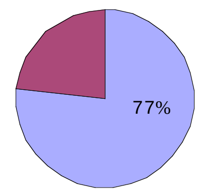
MISSISSIPPI

Mississippi Public Employees Retirement System (MPERS)
429 Mississippi Street
Jackson, MS 39201-1005
(601) 359-3589

Exposure Levels

		Amount Invested
Companies held by MPERS with Ties to Terrorist-Sponsoring States:	111	$2,188,854,970.96
Companies held by MPERS with Ties to Proliferation-Related Concerns:	16	$265,690,322.30
Total Exposure:	127	$2,454,545,293.26

Total Holdings vs. Total Exposure



Total MPERS Assets Under Management in Equities:

$10,680,242,986.69

This graph illustrates that 23% of MPERS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 111 Companies that MPERS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$23,558,820,000

Companies Held by MPERS with Ties to:

	Number of Companies
Iran	68
Saddam's Iraq	15
Libya	26
North Korea	10
Sudan	25
Syria	35

Sample Holdings

Company Name	Total Exposure
BNP Paribas	$21,370,883.91
ENI	$28,958,896.77
Statoil ASA	$2,313,733.14
Total SA	$57,376,082.53
UBS AG	$32,376,162.65

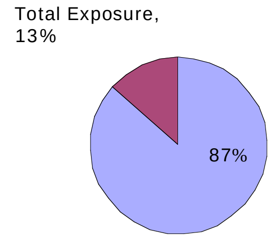
MISSOURI

Missouri State Employees' Retirement System (MSERS)
907 Wildwood Drive
P.O. Box 209
Jefferson City, MO 65102-0209
(573) 632-6147

Exposure Levels

		Amount Invested
Companies held by MSERS with Ties to Terrorist-Sponsoring States:	184	$368,553,003.91
Companies held by MSERS with Ties to Proliferation-Related Concerns:	17	$35,579,094.69
Total Exposure:	201	$404,132,098.60

Total Holdings vs. Total Exposure



Total MSERS Assets Under Management in Equities:

$3,055,252,628.78

This graph illustrates that 13% of MSERS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 184 Companies that MSERS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$50,963,955,000

Companies Held by MSERS with Ties to:

	Number of Companies
Iran	138
Saddam's Iraq	31
Libya	44
North Korea	17
Sudan	48
Syria	50

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$397,174.72
BNP Paribas	$517,293.82
ENI	$5,452,872.31
Hyundai	$40,147.54
Technip SA	$3,673,518.57

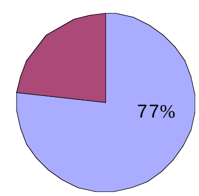
MISSOURI

Missouri Public School Retirement System (MPSRS)
3210 W. Truman Boulevard
P.O. Box 268
Jefferson City, MO 65102-0268
(573) 634-5290

Exposure Levels

		Amount Invested
Companies held by MPSRS with Ties to Terrorist-Sponsoring States:	87	$2,050,098,267.90
Companies held by MPSRS with Ties to Proliferation-Related Concerns:	16	$177,906,689.00
Total Exposure:	103	$2,228,004,956.90

Total Holdings vs. Total Exposure



Total MPSRS Assets Under Management in Equities:

$9,522,822,669.76

This graph illustrates that 23% of MPSRS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 87 Companies that MPSRS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$22,417,080,000

Companies Held by MPSRS with Ties to:

	Number of Companies
Iran	64
Saddam's Iraq	12
Libya	18
North Korea	8
Sudan	19
Syria	28

Sample Holdings

Company Name	Total Exposure
ENI	$57,614,080.11
Siemens AG	$40,957,608.53
Statoil ASA	$14,080,793.05
Total SA	$74,995,809.47
UBS AG	$28,207,856.56

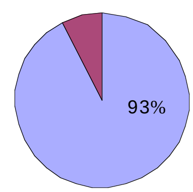
MISSOURI

St. Louis Police Retirement System (SLPRS)
1 South Memorial Drive
Suite 600
St. Louis, MO 63102
(314) 241-0800

Exposure Levels

		Amount Invested
Companies held by SLPRS with Ties to Terrorist-Sponsoring States:	23	$31,456,964.59
Companies held by SLPRS with Ties to Proliferation-Related Concerns:	4	$3,245,845.50
Total Exposure:	27	$34,702,810.09

Total Holdings vs. Total Exposure



Total SLPRS Assets Under Management in Equities:

$465,186,081.47

This graph illustrates that 7% of SLPRS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 23 Companies that SLPRS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$3,173,325,000

Companies Held by SLPRS with Ties to:

	Number of Companies
Iran	17
Saddam's Iraq	3
Libya	7
North Korea	1
Sudan	7
Syria	7

Sample Holdings

Company Name	Total Exposure
UBS AG	$2,440,429.96

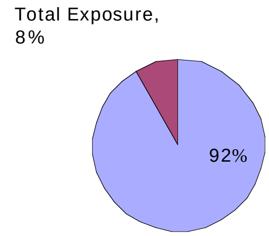
MISSOURI

Kansas City Police Employees' Retirement (KCPER)
1328 Agnes Street
Kansas City, MO 64127-2134
(816) 482-8138

Exposure Levels

		Amount Invested
Companies held by KCPER with Ties to Terrorist-Sponsoring States:	21	$43,551,549.00
Companies held by KCPER with Ties to Proliferation-Related Concerns:	2	$730,452
Total Exposure:	23	$44,282,001.00

Total Holdings vs. Total Exposure



Total KCPER Assets Under Management in Equities:

$553,843,934.88

This graph illustrates that 8% of KCPER's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 21 Companies that KCPER is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$880,325,000

Companies Held by KCPER with Ties to:

	Number of Companies
Iran	11
Saddam's Iraq	3
Libya	4
North Korea	1
Sudan	9
Syria	9

Sample Holdings

Company Name	Total Exposure
NONE	

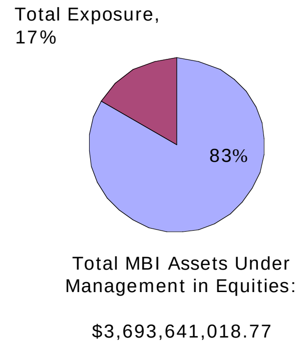
MONTANA

Montana Board of Investments (MBI)
P.O. Box 200126
Helena, MT 59620-0126
(406) 444-0001

Exposure Levels

		Amount Invested
Companies held by MBI with Ties to Terrorist-Sponsoring States:	39	$544,709,338.00
Companies held by MBI with Ties to Proliferation-Related Concerns:	5	$69,216,806.00
Total Exposure:	44	$613,926,144.00

Total Holdings vs. Total Exposure



This graph illustrates that 17% of MBI total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 39 Companies that MBI is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$10,132,440,000

Companies Held by MBI with Ties to:

	Number of Companies
Iran	28
Saddam's Iraq	5
Libya	9
North Korea	3
Sudan	14
Syria	15

Sample Holdings

Company Name	Total Exposure
Total SA	$4,673,501.00

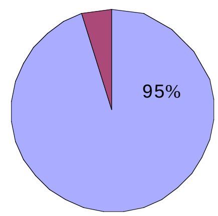
NEBRASKA

Nebraska Public Employees Retirement Systems (NPERS)
122 N. Street, Suite 325
P.O. Box 94816
Lincoln, NE 68509-4816
(402) 471-2043

Exposure Levels

		Amount Invested
Companies held by NPERS with Ties to Terrorist-Sponsoring States:	49	$161,060,079.02
Companies held by NPERS with Ties to Proliferation-Related Concerns:	3	$3,350,675.89
Total Exposure:	52	$164,410,754.91

Total Holdings vs. Total Exposure



Total NPERS Assets Under Management in Equities:

$3,239,557,056.61

This graph illustrates that 5% of NPERS total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 49 Companies that NPERS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$23,244,460,000

Companies Held by NPERS with Ties to:

	Number of Companies
Iran	43
Saddam’s Iraq	11
Libya	11
North Korea	2
Sudan	12
Syria	18

Sample Holdings

Company Name	Total Exposure
BNP Paribas	$5,214,769.61
ENI	$3,451,023.09
Siemens AG	$533,037.29
Total SA	$8,719,792.23
UBS AG	$3,950,680.57

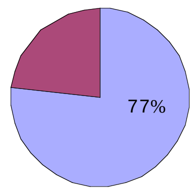
NEVADA

Public Employees' Retirement System of Nevada (PERSN)
693 West Nye Lane
Carson City, NV 89703-1527
(775) 687-4200

Exposure Levels

		Amount Invested
Companies held by PERSN with Ties to Terrorist-Sponsoring States:	159	$1,924,598,199.54
Companies held by PERSN with Ties to Proliferation-Related Concerns:	16	$266,060,899.67
Total Exposure:	174	$2,190,659,099.21

Total Holdings vs. Total Exposure



Total PERSN Assets Under Management in Equities:

$9,537,715,533.58

This graph illustrates that 23% of PERSN total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 159 Companies that PERSN is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$38,003,920,000

Companies Held by PERSN with Ties to:

	Number of Companies
Iran	119
Saddam's Iraq	25
Libya	39
North Korea	11
Sudan	38
Syria	44

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$6,164,695.62
ENI	$13,737,938.85
Siemens AG	$13,054,754.88
Technip	$444,001.40
UBS AG	$26,383,183.19

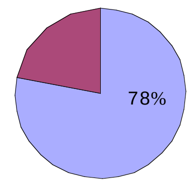
NEW HAMPSHIRE

New Hampshire Retirement System (NHRS)
4Chenell Drive
Concord, NH 03301-8501
(603) 271-3351

Exposure Levels

		Amount Invested
Companies held by NHRS with Ties to Terrorist-Sponsoring States:	67	$418,539,430.06
Companies held by NHRS with Ties to Proliferation-Related Concerns:	10	$45,701,239.54
Total Exposure:	76	$464,240,669.60

Total Holdings vs. Total Exposure



This graph illustrates that 22% of NHRS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 67 Companies that NHRS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$15,305,225,000

Companies Held by NHRS with Ties to:

	Number of Companies
Iran	49
Saddam's Iraq	12
Libya	17
North Korea	5
Sudan	20
Syria	24

Sample Holdings

Company Name	Total Exposure
Siemens AG	$3,156,867.74
Technip	$113,756.16
Total SA	$9,877,593.96
UBS AG	$9,969,696.99
ENI	$3,227,217.90

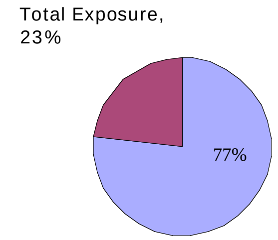
NEW JERSEY

New Jersey Division of Investment (NJDI)
P.O. Box 290
Trenton, NJ 08625
(609) 292-5106

Exposure Levels

		Amount Invested
Companies held by NJDI with Ties to Terrorist-Sponsoring States:	98	$9,537,056,906.16
Companies held by NJDI with Ties to Proliferation-Related Concerns:	10	$843,447,020.97
Total Exposure:	108	$10,380,503,927.13

Total Holdings vs. Total Exposure



Total NJDI Assets Under Management in Equities:

$44,498,009,255.42

This graph illustrates that 23% of NJDI total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 98 Companies that NJDI is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$25,740,280,000

Companies Held by NJDI with Ties to:

	Number of Companies
Iran	69
Saddam's Iraq	11
Libya	22
North Korea	12
Sudan	20
Syria	29

Sample Holdings

Company Name	Total Exposure
BNP Paribas	$94,473,883.30
ENI	$75,498,359.73
Hyundai Heavy Industries	$1,259,445.84
Technip	$59,454,009.01
Total SA	$92,985,112.17

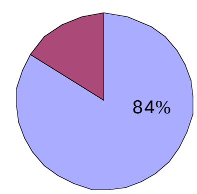
NEW MEXICO

New Mexico State Investment Council (NMIC)
2055 Pacheco Street
Suite 100
Santa Fe, NM 87505-5473
(505) 424-2512

Exposure Levels

		Amount Invested
Companies held by NMIC with Ties to Terrorist-Sponsoring States:	152	$1,086,192,280.90
Companies held by NMIC with Ties to Proliferation-Related Concerns:	13	$116,518,700.36
Total Exposure:	165	$1,202,710,981.26

Total Holdings vs. Total Exposure



Total NMIC Assets Under Management in Equities:

$7,391,148,513.90

This graph illustrates that 16% of NMIC total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 152 Companies that NMIC is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$24,820,805,000

Companies Held by NMIC with Ties to:

	Number of Companies
Iran	117
Saddam's Iraq	26
Libya	41
North Korea	12
Sudan	41
Syria	46

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$3,764,508.06
Statoil ASA	$195,537.86
Technip	$80,518.53
Total SA	$4,908,552.63
UBS AG	$5,756,924.44

NEW MEXICO

*New Mexico Public Employees' Retirement Association (NMPERA)**
P.O. Box 2123
Santa Fe, NM 87504-2123
(505) 827-4858

**Due to restrictions on the sharing of data obtained from the State of New Mexico Public Employees' Retirement Association, an analysis of the fund's exposure to companies doing business in terrorist-sponsoring states or with ties to proliferation-related concerns is not included in this report.*

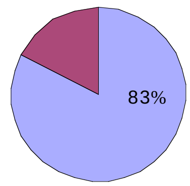
NEW MEXICO

New Mexico Educational Retirement Board (NMERB)
701 Camino de los Marquez
P.O. Box 26129
Santa Fe, NM 87502-0129
(505) 827-8030

Exposure Levels

		Amount Invested
Companies held by NMERB with Ties to Terrorist-Sponsoring States:	34	$503,845,648.92
Companies held by NMERB with Ties to Proliferation-Related Concerns:	8	$54,117,601.37
Total Exposure:	42	$557,963,250.29

Total Holdings vs. Total Exposure



Total NMERB Assets Under Management in Equities:

$3,194,480,054.48

This graph illustrates that 17% of NMERB's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 34 Companies that NMERB is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$2,979,825,000

Companies Held by NMERB with Ties to:

	Number of Companies
Iran	20
Saddam's Iraq	4
Libya	7
North Korea	3
Sudan	10
Syria	10

Sample Holdings

Company Name	Total Exposure
NONE	

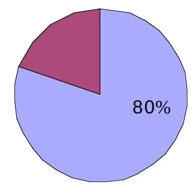
NEW YORK

New York State Common Retirement Fund (NYSCRF)
Alfred E. Smith Bldg.
South Swann St. 6th Floor
Albany, NY 12236-0001
(518) 474-4003

Exposure Levels

		Amount Invested
Companies held by NYSCRF with Ties to Terrorist-Sponsoring States:	156	$10,489,687,291.89
Companies held by NYSCRF with Ties to Proliferation-Related Concerns:	17	$1,161,943,028.85
Total Exposure:	173	$11,651,630,320.74

Total Holdings vs. Total Exposure



Total ASRS Assets Under Management in Equities:

$38,096,193,000.00

This graph illustrates that 20% of NYSCRF' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 156 Companies that NYSCRF is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$37,800,405,000

Companies Held by NYSCRF with Ties to:

	Number of Companies
Iran	119
Saddam's Iraq	28
Libya	40
North Korea	12
Sudan	44
Syria	47

Sample Holdings

Company Name	Total Exposure
Total SA	$154,498,353.22
Siemens AG	$41,300,248.48
Alcatel SA	$23,285,114.76

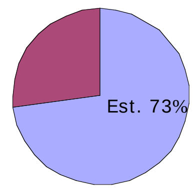
NEW YORK

New York State Teacher's Retirement System (NYSTRS)
10 Corporate Woods Drive
Albany, NY 12211-2395
(518) 447-2910

Exposure Levels

		Amount Invested
Companies held by NYSTRS with Ties to Terrorist-Sponsoring States:	190	$15,683,753,400.55
Companies held by NYSTRS with Ties to Proliferation-Related Concerns:	20	$1,935,151,686.12
Total Exposure:	210	$17,618,905,086.67

Total Holdings vs. Total Exposure



This graph illustrates that 27% of NYSTRS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 190 Companies that NYSTRS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$52,831,315,000

Companies Held by NYSTRS with Ties to:

	Number of Companies
Iran	138
Saddam's Iraq	33
Libya	42
North Korea	16
Sudan	45
Syria	58

Sample Holdings

Company Name	Total Exposure
Alcatel SA	&8,204,290.75
BNP Paribas	$60,991,477.17
ENI	$251,383,311.72
Technip SA	$152,595.01
Total SA	$52,182,566.67

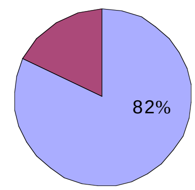
NEW YORK

Teachers' Retirement System of the City of New York (TRSCNY)
40 Worth Street
Room 1328
New York, NY 10013-2904
(212) 386-5097

Exposure Levels

		Amount Invested
Companies held by TRSCNY with Ties to Terrorist-Sponsoring States:	30	$169,949,878.00
Companies held by TRSCNY with Ties to Proliferation-Related Concerns:	11	$42,487,137.00
Total Exposure:	41	$212,437,015.00

Total Holdings vs. Total Exposure



Total TRSCNY Assets Under Management in Equities:

$1,186,185,251.00

This graph illustrates that 18% of TRSCNY's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 30 Companies that TRSCNY is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$2,647,840,000

Companies Held by TRSCNY with Ties to:

	Number of Companies
Iran	19
Saddam's Iraq	4
Libya	8
North Korea	2
Sudan	9
Syria	9

Sample Holdings

Company Name	Total Exposure
NONE	

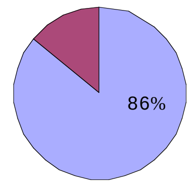
NORTH CAROLINA

North Carolina Retirement Systems (NCRS)
325 North Salisbury Street
Raleigh, NC 27603-1385
(919) 508-5377

Exposure Levels

		Amount Invested
Companies held by NCRS with Ties to Terrorist-Sponsoring States:	135	$4,411,784,731.94
Companies held by NCRS with Ties to Proliferation-Related Concerns:	16	$580,422,419.14
Total Exposure:	151	$4,992,207,151.08

Total Holdings vs. Total Exposure



This graph illustrates that 14% of NCRS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 135 Companies that NCRS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$31,999,440,000

Companies Held by NCRS with Ties to:

	Number of Companies
Iran	95
Saddam's Iraq	21
Libya	35
North Korea	13
Sudan	33
Syria	43

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$2,851,470.00
Statoil ASA	$12,140,470.78
Technip	$587,248.79
Total SA	$66,859,599.27
UBS AG	$15,196,828.39

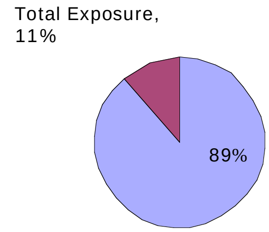
NORTH DAKOTA

North Dakota State Investment Board (NDSIB)
1930 Burnt Boat Drive
P.O. Box 7100
Bismarck, ND 58507-7100
(701) 328-9885

Exposure Levels

		Amount Invested
Companies held by NDSIB with Ties to Terrorist-Sponsoring States:	76	$170,280,639.31
Companies held by NDSIB with Ties to Proliferation-Related Concerns:	12	$15,290,526.83
Total Exposure:	88	$185,571,166.14

Total Holdings vs. Total Exposure



Total NDSIB Assets Under Management in Equities:

$1,734,127,286.37

This graph illustrates that 11% of NDSIB's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 76 Companies that NDSIB is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$12,548,199,000

Companies Held by NDSIB with Ties to:

	Number of Companies
Iran	56
Saddam's Iraq	13
Libya	18
North Korea	3
Sudan	19
Syria	31

Sample Holdings

Company Name	Total Exposure
BNP Paribas	$3,973,191.77
Siemens AG	$2,326,780.70
Statoil ASA	$1,303,360.99
Total SA	$2,087,357.31
UBS AG	$3,401,560.22

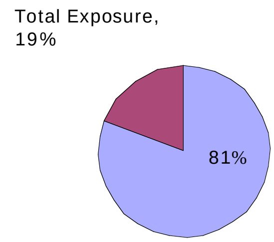
Ohio

Ohio Public Employees Retirement System (OPERS)
277 East Town Street
Columbus, OH 43215-4642
(614)466-2085

Exposure Levels

		Amount Invested
Companies held by OPERS with Ties to Terrorist-Sponsoring States:	137	$5,664,742,901.86
Companies held by OPERS with Ties to Proliferation-Related Concerns:	18	$655,405,482.62
Total Exposure:	155	$5,765,092,926.11

Total Holdings vs. Total Exposure



Total OPERS Assets Under Management in Equities:

$33,929,228,987.54

This graph illustrates that 19% of OPERS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 137 Companies that OPERS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$35,797,260,000

Companies Held by OPERS with Ties to:

	Number of Companies
Iran	102
Saddam's Iraq	27
Libya	32
North Korea	11
Sudan	37
Syria	47

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$18,682,679.41
BNP Paribas	$27,868,459.70
ENI	$44,971,575.16
Total SA	$72,693,691.36
UBS AG	$40,209,817.11

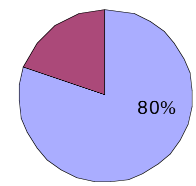
OHIO

Ohio State Teachers Retirement System (OSTRS)
275 East Broad Street
Columbus, OH 43215-3771
(614) 227-4090

Exposure Levels

		Amount Invested
Companies held by OSTRS with Ties to Terrorist-Sponsoring States:	162	$5,956,895,485.15
Companies held by OSTRS with Ties to Proliferation-Related Concerns:	20	$712,230,423.59
Total Exposure:	182	$6,669,125,908.74

Total Holdings vs. Total Exposure



Total OSTRS Assets Under Management in Equities:

$33,663,649,426.10

This graph illustrates that 20% of OSTRS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 162 Companies that OSTRS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$37,554,470,000

Companies Held by OSTRS with Ties to:

	Number of Companies
Iran	121
Saddam's Iraq	30
Libya	39
North Korea	16
Sudan	40
Syria	47

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$759,642.93
Technip	$7,000,121.68
ENI	$50,041,182.69
Statoil ASA	$40,637,751.42
Total SA	$55,740,129.05

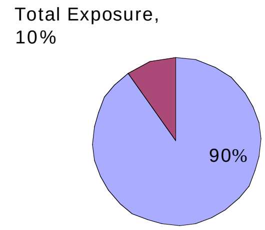
OHIO

Ohio Police & Fire Pension Fund (OPFPF)
140 East Town Street
Columbus, OH 43215-5164
(614) 228-2975

Exposure Levels

		Amount Invested
Companies held by OPFPF with Ties to Terrorist-Sponsoring States:	84	$533,791,243.78
Companies held by OPFPF with Ties to Proliferation-Related Concerns:	13	$63,456,092.43
Total Exposure:	97	$597,247,336.21

Total Holdings vs. Total Exposure



Total OPFPF Assets Under Management in Equities:

$6,186,440,825.53

This graph illustrates that 10% of OPFPF's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 84 Companies that OPFPF is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$25,764,620,000

Companies Held by OPFPF with Ties to:

	Number of Companies
Iran	63
Saddam's Iraq	17
Libya	20
North Korea	6
Sudan	25
Syria	29

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$1,197,690.21
ENI	$5,327,889.33
Statoil ASA	$3,430,311.30
Total SA	$13,748,453.64
UBS AG	$2,933,938.13

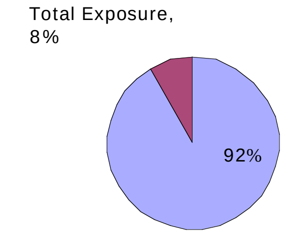
OHIO

School Employees Retirement System of Ohio (SERSO)
45 North Fourth Street
Columbus, OH 43215-3634
(614) 222-5900

Exposure Levels

		Amount Invested
Companies held by SERSO with Ties to Terrorist-Sponsoring States:	71	$408,992,523.84
Companies held by SERSO with Ties to Proliferation-Related Concerns:	12	$41,391,682.34
Total Exposure:	83	$450,384,206.18

Total Holdings vs. Total Exposure



Total SERSO Assets Under Management in Equities:

$5,364,745,165.39

This graph illustrates that 8% of SERSO total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 71 Companies that SERSO is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$8,565,430,000

Companies Held by SERSO with Ties to:

	Number of Companies
Iran	48
Saddam's Iraq	11
Libya	18
North Korea	6
Sudan	24
Syria	23

Sample Holdings

Company Name	Total Exposure
BNP Paribas	$5,673,289.94
Siemens AG	$6,087,385.09
Total SA	$10,726,455.06

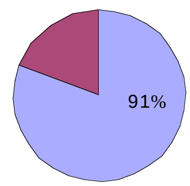
OKLAHOMA

Teachers' Retirement System of Oklahoma (TRSO)
State Capital Station
P.O. Box 53524
Oklahoma City, OK 73152-3524
(405) 521-2387

Exposure Levels

		Amount Invested
Companies held by TRSO with Ties to Terrorist-Sponsoring States:	99	$635,588,101.15
Companies held by TRSO with Ties to Proliferation-Related Concerns:	12	$47,396,254.24
Total Exposure:	111	$682,984,355.39

Total Holdings vs. Total Exposure



Total TRSO Assets Under Management in Equities:

$4,746,489,424.54

This graph illustrates that 18% of TRSO's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 99 Companies that TRSO is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$27,538,940,000

Companies Held by TRSO with Ties to:

	Number of Companies
Iran	70
Saddam's Iraq	18
Libya	23
North Korea	9
Sudan	28
Syria	31

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$8,728,965.96
ENI	$7,750,355.21
Statoil ASA	$460,670.67
Total SA	$14,964,382.89
UBS AG	$14,877,476.86

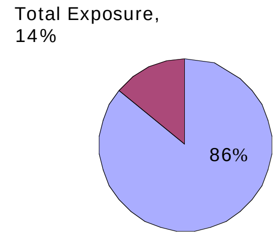
OKLAHOMA

Oklahoma Public Employees Retirement System (OPERS)
6601 North Broadway Extension
Suite 129, P.O. Box 53007
Oklahoma City, OK 73152-3007
(405) 858-6737

Exposure Levels

		Amount Invested
Companies held by OPERS with Ties to Terrorist-Sponsoring States:	187	$531,145,185.90
Companies held by OPERS with Ties to Proliferation-Related Concerns:	21	$52,507,967.96
Total Exposure:	208	$583,653,153.87

Total Holdings vs. Total Exposure



Total OPERS Assets Under Management in Equities:

$3,021,556,532.29

This graph illustrates that 14% of OPERS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 187 Companies that OPERS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$44,210,920,000

Companies Held by OPERS with Ties to:

	Number of Companies
Iran	139
Saddam's Iraq	33
Libya	43
North Korea	16
Sudan	48
Syria	56

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$578,315.62
ENI	$3,253,375.64
Technip SA	$88,286.55
Total SA	$11,067,848.45
UBS AG	$4,318,554.27

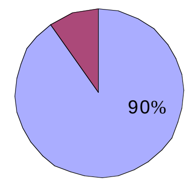
OREGON

Oregon Public Employees Retirement Fund (OPERF)
Oregon State Treasury
350 Winter Street, NE., Suite 100
Salem, OR 97301-3896
(503) 378-4111

Exposure Levels

		Amount Invested
Companies held by OPERF with Ties to Terrorist-Sponsoring States:	122	$2,054,409,150.60
Companies held by OPERF with Ties to Proliferation-Related Concerns:	13	$228,249,574.00
Total Exposure:	135	$2,282,658,724.60

Total Holdings vs. Total Exposure



Total OPERF Assets Under Management in Equities:

$22,943,415,665.02

This graph illustrates that 10% of OPERF's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 122 Companies that OPERF is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$38,894,380,000

Companies Held by OPERF with Ties to:

	Number of Companies
Iran	87
Saddam's Iraq	20
Libya	31
North Korea	10
Sudan	33
Syria	37

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$15,521,068.77
ENI SPA	$40,614,662.85
Statoil ASA	$12,949,730.47
Total SA	$31,000,694.53
UBS AG	$41,435,884.64

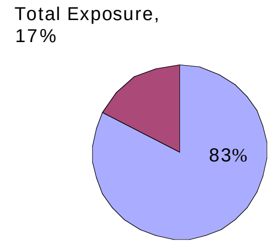
PENNSYLVANIA

Pennsylvania Public School Employees' Retirement System (PPSERS)
5 North Fifth Street
P.O. Box 125
Harrisburg, PA 17108-0125
(717) 787-8540

Exposure Levels

		Amount Invested
Companies held by PPSERS with Ties to Terrorist-Sponsoring States:	145	$3,319,687,604.57
Companies held by PPSERS with Ties to Proliferation-Related Concerns:	15	$51,587,609.77
Total Exposure:	160	$3,371,275,214.34

Total Holdings vs. Total Exposure



Total PPSERS Assets Under Management in Equities:

$20,071,234,996.07

This graph illustrates that 17% of PPSERS's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 145 Companies that PPSERS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$36,823,215,000

Companies Held by PPSERS with Ties to:

	Number of Companies
Iran	110
Saddam's Iraq	22
Libya	30
North Korea	16
Sudan	33
Syria	37

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$6,938,383.65
Hyundai Merchant Marine	$488,311.24
Statoil ASA	$382,278.02
Total SA	$50,198,649.53
UBS AG	$48,050,823.20

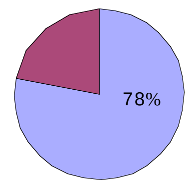
PENNSYLVANIA

Pennsylvania State Employees Retirement System (PSERS)
P.O. Box 1147
30 North 3rd Street
Harrisburg, PA 17108-1147
(717) 787-9008

Exposure Levels

		Amount Invested
Companies held by PSERS with Ties to Terrorist-Sponsoring States:	145	$3,226,122,311.36
Companies held by PSERS with Ties to Proliferation-Related Concerns:	13	$45,076,161.85
Total Exposure:	158	$3,271,198,473.21

Total Holdings vs. Total Exposure



Total PSERS Assets Under Management in Equities:

$15,058,498,126.47

This graph illustrates that 22% of PSERS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 145 Companies that PSERS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$45,753,200,000

Companies Held by PSERS with Ties to:

	Number of Companies
Iran	108
Saddam's Iraq	23
Libya	32
North Korea	16
Sudan	29
Syria	35

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$6,938,383.65
Hyundai Merchant Marine	$488,311.24
Statoil ASA	$382,278.02
Total SA	$50,198,649.53
UBS AG	$46,435,392.44

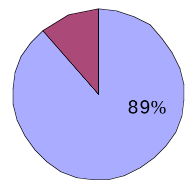
PENNSYLVANIA

Philadelphia Board of Pensions & Retirement (PBPR)
Two Penn Center
20th Floor
Philadelphia, PA 19102
(215) 496-7400

Exposure Levels

		Amount Invested
Companies held by PBPR with Ties to Terrorist-Sponsoring States:	56	$172,250,797.49
Companies held by PBPR with Ties to Proliferation-Related Concerns:	16	$29,666,585.32
Total Exposure:	72	$201,917,382.81

Total Holdings vs. Total Exposure



Total PBPR Assets Under Management in Equities:

$1,789,579,548.31

This graph illustrates that 11% of PBPR's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 56 Companies that PBPR is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$10,503,340,000

Companies Held by PBPR with Ties to:

	Number of Companies
Iran	34
Saddam's Iraq	10
Libya	12
North Korea	5
Sudan	15
Syria	17

Sample Holdings

Company Name	Total Exposure
Total SA	$5,738,537.03

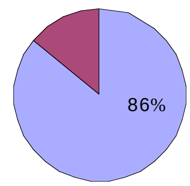
RHODE ISLAND

Rhode Island Employees Retirement Systems (RIERS)
40 Fountain Street
8th Floor
Providence, RI 02903-1844
(401) 222-8588

Exposure Levels

		Amount Invested
Companies held by RIERS with Ties to Terrorist-Sponsoring States:	41	$382,392,575.09
Companies held by RIERS with Ties to Proliferation-Related Concerns:	4	$12,722,681.09
Total Exposure:	45	$395,115,256.18

Total Holdings vs. Total Exposure



Total RIERS Assets Under Management in Equities:

$2,924,182,585.91

This graph illustrates that 14% of RIERS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 41 Companies that RIERS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$16,774,500,000

Companies Held by RIERS with Ties to:

	Number of Companies
Iran	28
Saddam's Iraq	7
Libya	8
North Korea	4
Sudan	10
Syria	11

Sample Holdings

Company Name	Total Exposure
BNP Paribas	$7,397,078.99
ENI	$15,166,056.31
Total SA	$61,048,794.31
UBS AG	$22,110,116.91

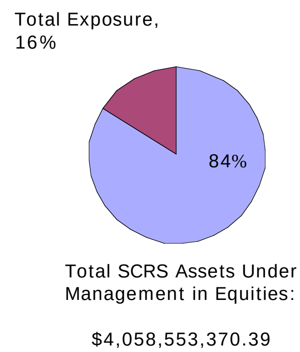
SOUTH CAROLINA

South Carolina Retirement System (SCRS)
P.O. Box 11778
Columbia, SC 29211-1778
(803) 734-2114

Exposure Levels

		Amount Invested
Companies held by SCRS with Ties to Terrorist-Sponsoring States:	32	$587,321,393.83
Companies held by SCRS with Ties to Proliferation-Related Concerns:	7	$64,581,645.10
Total Exposure:	39	$651,903,038.93

Total Holdings vs. Total Exposure



This graph illustrates that 16% of SCRS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 32 Companies that SCRS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$2,343,340,000

Companies Held by SCRS with Ties to:

	Number of Companies
Iran	18
Saddam's Iraq	7
Libya	6
North Korea	2
Sudan	12
Syria	10

Sample Holdings

Company Name	Total Exposure
NONE	

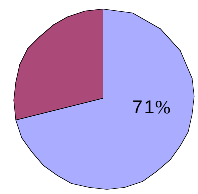
SOUTH DAKOTA

South Dakota Investment Council (SDIC)
4009 West 49th Street
Suite 300
Sioux Falls, SD 57106-3784
(605) 362-2820

Exposure Levels

		Amount Invested
Companies held by SDIC with Ties to Terrorist-Sponsoring States:	55	$546,004,216.00
Companies held by SDIC with Ties to Proliferation-Related Concerns:	10	$46,563,950.00
Total Exposure:	65	$592,568,166.00

Total Holdings vs. Total Exposure



Total SDIC Assets Under Management in Equities:

$2,052,085,203.00

This graph illustrates that 29% of SDIC's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 55 Companies that SDIC is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$10,801,380,000

Companies Held by SDIC with Ties to:

	Number of Companies
Iran	44
Saddam's Iraq	8
Libya	10
North Korea	3
Sudan	16
Syria	18

Sample Holdings

Company Name	Total Exposure
BNP Paribas	$16,614,481.00
Technip	$1,737,706.00
Siemens AG	$2,813,090.00
Total SA	$24,050,401.00

TENNESSEE

*Tennessee Consolidated Retirement System (TCRS)**
Andrew Jackson State Office Building
10th Floor
Nashville, TN 37243-0230
(615) 741-1971

**The Tennessee Consolidated Retirement System refused to provide records of the fund's investment portfolios, despite numerous phone calls and e-mails to several members of the fund's staff.*

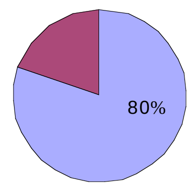
TEXAS

Teacher Retirement System of Texas (TRST)
1000 Red River Street
Austin, TX 78701-2698
(512) 397-6460

Exposure Levels

		Amount Invested
Companies held by TRST with Ties to Terrorist-Sponsoring States:	166	$10,831,542,416.94
Companies held by TRST with Ties to Proliferation-Related Concerns:	16	$979,011,985.89
Total Exposure:	182	$11,810,554,402.83

Total Holdings vs. Total Exposure



Total TRST Assets Under Management in Equities:

$58,964,206,629.55

This graph illustrates that 20% of TRST's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 166 Companies that TRST is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$34,759,530,000

Companies Held by TRST with Ties to:

	Number of Companies
Iran	121
Saddam's Iraq	24
Libya	43
North Korea	14
Sudan	35
Syria	45

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$23,001,838.91
BNP Paribas	$70,275,114.93
ENI	$65,512,210.71
Technip	$13,999,748.23
Total SA	$168,971,515.90

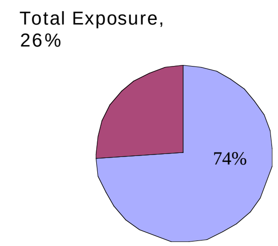
TEXAS

Employees' Retirement System of Texas (ERST)
1801 Brazos Street
P.O. Box 13207
Austin, TX 78701
(512) 476-6431

Exposure Levels

		Amount Invested
Companies held by ERST with Ties to Terrorist-Sponsoring States:	105	$2,802,306,404.08
Companies held by ERST with Ties to Proliferation-Related Concerns:	15	$246,922,216.05
Total Exposure:	120	$3,049,228,620.13

Total Holdings vs. Total Exposure



Total ERST Assets Under Management in Equities:

$11,913,602,926.63

This graph illustrates that 26% of ERST's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 105 Companies that ERST is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$22,166,660,000

Companies Held by ERST with Ties to:

	Number of Companies
Iran	73
Saddam's Iraq	17
Libya	25
North Korea	8
Sudan	26
Syria	33

Sample Holdings

Company Name	Total Exposure
BNP Paribas	$49,515,047.72
ENI	$88,373,313.72
Technip	$3,555,533,47
Total SA	$91,107,196.57
UBS AG	$29,985,586.39

TEXAS

*Texas Municipal Retirement System (TMRS)**
P.O. Box 149153
Austin, TX 78714-9153
(512) 476-7577

***As a matter of investment policy, TMRS only invests in Fixed Income instruments (i.e., corporate bonds, sovereign bonds, etc.) Accordingly, TMRS is not exposed to the equities of any company with ties to terrorist-sponsoring states or to proliferation-related concerns.**

Exposure Levels

		Amount Invested
Companies held by TMRS with Ties to Terrorist-Sponsoring States:	0	$0.00
Companies held by TMRS with Ties to Proliferation-Related Concerns:	0	$0.00
Total Exposure:	0	$0.00

Total Holdings vs. Total Exposure

TMRS Has No Equity Investments

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

TMRS is Not Invested in the Equities of Any Company that is Involved in Projects in Terrorist-Sponsoring States.

Companies Held by TMRS with Ties to:

	Number of Companies
Iran	0
Saddam’s Iraq	0
Libya	0
North Korea	0
Sudan	0
Syria	0

Sample Holdings

Company Name	Total Exposure
NONE	

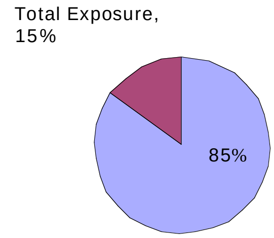
TEXAS

Houston Police Pension System (HPPS)
602 Sawyer
Suite 300
Houston, TX 77007
(281) 372-5100

Exposure Levels

		Amount Invested
Companies held by HPPS with Ties to Terrorist-Sponsoring States:	31	$181,806,424.28
Companies held by HPPS with Ties to Proliferation-Related Concerns:	4	$14,724,224.05
Total Exposure:	35	196,530,648.33

Total Holdings vs. Total Exposure



Total HPPS Assets Under Management in Equities:

$1,309,742,856.96

This graph illustrates that 15% of HPPS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 31 Companies that HPPS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$5,236,100,000

Companies Held by HPPS with Ties to:

	Number of Companies
Iran	23
Saddam's Iraq	6
Libya	5
North Korea	1
Sudan	10
Syria	10

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$5,679,366.86

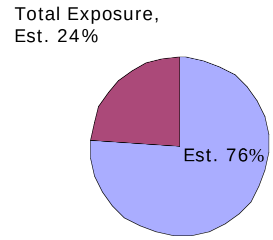
TEXAS

Dallas Police & Fire Pension System (DPFPS)
2777 Stemmons Freeway
Suite 825
Dallas, TX 75207
(214) 638-3863

Exposure Levels

		Amount Invested
Companies held by DPFPS with Ties to Terrorist-Sponsoring States:	77	$221,237,293.99
Companies held by DPFPS with Ties to Proliferation-Related Concerns:	5	$15,844,208.24
Total Exposure:	82	$237,081,502.23

Total Holdings vs. Total Exposure



Total DPFPS Assets Under Management in Equities:

Est. $1,000,000,000

This graph illustrates that 24% of DPFPS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 77 Companies that DPFPS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$23,784,680,000

Companies Held by DPFPS with Ties to:

	Number of Companies
Iran	56
Saddam's Iraq	15
Libya	25
North Korea	6
Sudan	23
Syria	25

Sample Holdings

Company Name	Total Exposure
BNP Paribas	$5,498,123.76
ENI SPA	$8,770,651.49
Siemens AG	$3,026,415.11
Total SA	$15,099,283.07
UBS AG	$9,306,855.49

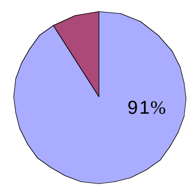
TEXAS

San Antonio Fire & Police Pension Fund (SAFPPF)
311 Roosevelt Avenue
San Antonio, TX 78210-2753
(210) 534-3262

Exposure Levels

		Amount Invested
Companies held by SAFPPF with Ties to Terrorist-Sponsoring States:	54	$57,698,208.46
Companies held by SAFPPF with Ties to Proliferation-Related Concerns:	11	$5,119,668.04
Total Exposure:	65	$62,817,876.50

Total Holdings vs. Total Exposure



Total SAFPPF Assets Under Management in Equities:

$685,058,804.56

This graph illustrates that 9% of SAFPPF's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 54 Companies that SAFPPF is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$7,903,575,000

Companies Held by SAFPPF with Ties to:

	Number of Companies
Iran	37
Saddam's Iraq	11
Libya	11
North Korea	5
Sudan	16
Syria	17

Sample Holdings

Company Name	Total Exposure
UBS AG	$1,331,782.98
BNP Paribas	$1,076,278.96
Total SA	$1,525,192.38

UTAH

*Utah State Retirement System (USRS)**
560 East 200 South
Salt Lake City, UT 84102-2021
(801) 366-7700

**The Utah State Retirement System refused to provide records of the fund's investment portfolios. The fund is reportedly exempt under Utah state law from providing its investment holdings to the public.*

VERMONT

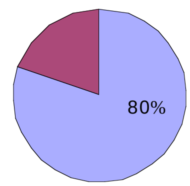
*Vermont State Retirement System (VSRS)**
133 State Street
Montpelier, VT 05633-6200
(802) 828-2301

***The State Treasurer's Office jointly administers the Vermont State Retirement System, the State Teacher Retirement System and the Vermont Municipal Employees Retirement System. Accordingly, the investment portfolio underpinning the analysis below covers all three of these pension systems.**

Exposure Levels

		Amount Invested
Companies held by VSRS with Ties to Terrorist-Sponsoring States:	68	$209,255,410.12
Companies held by VSRS with Ties to Proliferation-Related Concerns:	15	$25,835,442.61
Total Exposure:	83	$235,090,852.73

Total Holdings vs. Total Exposure



Total VSRS Assets Under Management in Equities:

$1,164,081,342.91

This graph illustrates that 20% of VSRS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 68 Companies that VSRS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$21,212,660,000

Companies Held by VSRS with Ties to:

	Number of Companies
Iran	49
Saddam's Iraq	9
Libya	16
North Korea	5
Sudan	17
Syria	21

Sample Holdings

Company Name	Total Exposure
BNP Paribas	$1,364,475.88
ENI	$2,414,139.04
Statoil ASA	$439,270.00
Total SA	$7,255,341.04
UBS AG	$704,647.08

VERMONT

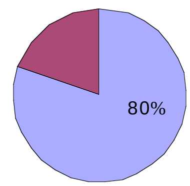
*Vermont State Teacher Retirement System (VSTRS)**
133 State Street
Montpelier, VT 05633-6200
(802) 828-2301

***The State Treasurer's Office jointly administers the Vermont State Retirement System, the State Teacher Retirement System and the Vermont Municipal Employees Retirement System. Accordingly, the investment portfolio underpinning the analysis below covers all three of these pension systems.**

Exposure Levels

		Amount Invested
Companies held by VSTRS with Ties to Terrorist-Sponsoring States:	68	$209,255,410.12
Companies held by VSTRS with Ties to Proliferation-Related Concerns:	15	$25,835,442.61
Total Exposure:	83	$235,090,852.73

Total Holdings vs. Total Exposure



Total VSTRS Assets Under Management in Equities:

$1,164,081,342.91

This graph illustrates that 20% of VSTRS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 68 Companies that VSTRS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$21,212,660,000

Companies Held by VSTRS with Ties to:

	Number of Companies
Iran	49
Saddam's Iraq	9
Libya	16
North Korea	5
Sudan	17
Syria	21

Sample Holdings

Company Name	Total Exposure
BNP Paribas	$1,364,475.88
ENI	$2,414,139.04
Statoil ASA	$439,270.00
Total SA	$7,255,341.04
UBS AG	$704,647.08

VERMONT

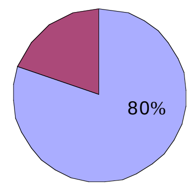
*Vermont Municipal Employees' Retirement System (VMERS)**
133 State Street
Montpelier, VT 05633-6200
(802) 828-2301

***The State Treasurer's Office jointly administers the Vermont State Retirement System, the State Teacher Retirement System and the Vermont Municipal Employees Retirement System. Accordingly, the investment portfolio underpinning the analysis below covers all three of these pension systems.**

Exposure Levels

		Amount Invested
Companies held by VMERS with Ties to Terrorist-Sponsoring States:	68	$209,255,410.12
Companies held by VMERS with Ties to Proliferation-Related Concerns:	15	$25,835,442.61
Total Exposure:	83	$235,090,852.73

Total Holdings vs. Total Exposure



Total VMERS Assets Under Management in Equities:

$1,164,081,342.91

This graph illustrates that 20% of VMERS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 68 Companies that VMERS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$21,212,660,000

Companies Held by VMERS with Ties to:

	Number of Companies
Iran	49
Saddam's Iraq	9
Libya	16
North Korea	5
Sudan	17
Syria	21

Sample Holdings

Company Name	Total Exposure
BNP Paribas	$1,364,475.88
ENI	$2,414,139.04
Statoil ASA	$439,270.00
Total SA	$7,255,341.04
UBS AG	$704,647.08

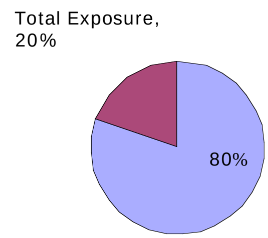
VIRGINIA

Virginia Retirement Systems (VRS)
1200 E. Main Street
P.O. Box 2500
Richmond, VA 23218-2500
(804) 649-8059

Exposure Levels

		Amount Invested
Companies held by VRS with Ties to Terrorist-Sponsoring States:	213	$4,348,854,415.43
Companies held by VRS with Ties to Proliferation-Related Concerns:	20	$540,377,681.25
Total Exposure:	233	$4,889,232,096.68

Total Holdings vs. Total Exposure



Total VRS Assets Under Management in Equities:

$24,749,511,149.01

This graph illustrates that 20% of VRS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 213 Companies that VRS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$66,529,060,000

Companies Held by VRS with Ties to:

	Number of Companies
Iran	154
Saddam's Iraq	38
Libya	52
North Korea	21
Sudan	51
Syria	60

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$8,420,254.80
BNP Paribas	$23,297,029.99
ENI	$35,631,538.23
Hyundai Heavy Industries	$765,069.61
Total SA	$63,487,433.58

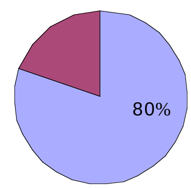
WASHINGTON

Washington State Investment Board (WASIB)
2424 Heritage Court SW
P.O. Box 40916
Olympia, WA 98504-0916
(360) 664-8900

Exposure Levels

		Amount Invested
Companies held by WASIB with Ties to Terrorist-Sponsoring States:	148	$3,080,116,399.84
Companies held by WASIB with Ties to Proliferation-Related Concerns:	23	$494,253,881.34
Total Exposure:	171	$3,574,370,281.18

Total Holdings vs. Total Exposure



Total WASIB Assets Under Management in Equities:

$17,786,497,592.20

This graph illustrates that 20% of WASIB's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 148 Companies that WASIB is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$33,217,980,000

Companies Held by WASIB with Ties to:

	Number of Companies
Iran	101
Saddam's Iraq	26
Libya	35
North Korea	15
Sudan	32
Syria	46

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$1,417,910.67
ENI	$20,242,960.34
Hyundai Heavy Industries	$106,284
Total SA	$80,058,662.13
UBS AG	$39,402,104.58

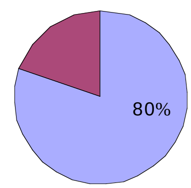
WEST VIRGINIA

West Virginia Investment Management Board (WVIMB)
1 Cantley Drive
Suite 3
Charleston, WV 25314
(304) 345-2672

Exposure Levels

		Amount Invested
Companies held by WVIMB with Ties to Terrorist-Sponsoring States:	54	$363,181,543.00
Companies held by WVIMB with Ties to Proliferation-Related Concerns:	8	31,417,000.00
Total Exposure:	62	$394,598,543.00

Total Holdings vs. Total Exposure



Total WVIMB Assets Under Management in Equities:

$1,895,860,000.00

This graph illustrates that 20% of WVIMB's total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 54 Companies that WVIMB is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$20,958,070,000

Companies Held by WVIMB with Ties to:

	Number of Companies
Iran	36
Saddam's Iraq	10
Libya	15
North Korea	4
Sudan	19
Syria	17

Sample Holdings

Company Name	Total Exposure
ENI	$4,575,000.00
Statoil ASA	$2,700,000.00
Technip	$5,019,000.00
Total SA	$4,809,000.00
UBS AG	$6,176,000.00

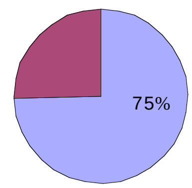
WISCONSIN

State of Wisconsin Investment Board (SWIB)
121 E. Wilson Street
Madison, WI 53702-00001
(608) 266-2381

Exposure Levels

		Amount Invested
Companies held by SWIB with Ties to Terrorist-Sponsoring States:	90	$3,985,763,284.42
Companies held by SWIB with Ties to Proliferation-Related Concerns:	10	$327,387,192.53
Total Exposure:	100	$4,313,150,476.95

Total Holdings vs. Total Exposure



This graph illustrates that 25% of SWIB total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 90 Companies that SWIB is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$20,421,680,000

Companies Held by SWIB with Ties to:

	Number of Companies
Iran	66
Saddam's Iraq	18
Libya	24
North Korea	6
Sudan	29
Syria	35

Sample Holdings

Company Name	Total Exposure
Siemens AG	$10,388,415.53
Statoil ASA	$7,802,188.53
Technip	$8,852,709.29
Total SA	$72,133,657.97
UBS AG	$36,293,855.83

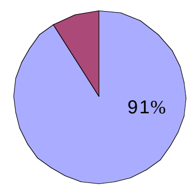
WYOMING

Wyoming Retirement System (WRS)
Herschler Building
1st Floor East
Cheyenne, WY 82002-00001
(307) 777-7693

Exposure Levels

		Amount Invested
Companies held by WRS with Ties to Terrorist-Sponsoring States:	76	$384,082,608.52
Companies held by WRS with Ties to Proliferation-Related Concerns:	9	$47,053,525.15
Total Exposure:	85	$431,136,133.67

Total Holdings vs. Total Exposure



Total WRS Assets Under Management in Equities:

$4,540,472,716.33

This graph illustrates that 9% of WRS' total equity holdings are in companies with ties to terrorist-sponsoring states or proliferation-related concerns.

Financial Impact of Publicly Traded Companies on the Economies of Terrorist-Sponsoring States:

The 76 Companies that WRS is Invested in Are Involved in Projects in Terrorist-Sponsoring States Worth, at a Minimum,

$13,819,925,000

Companies Held by WRS with Ties to:

	Number of Companies
Iran	63
Saddam's Iraq	12
Libya	21
North Korea	6
Sudan	22
Syria	27

Sample Holdings

Company Name	Total Exposure
Alcatel SA	$1,561,006.55
Statoil ASA	$1,792,711.93
Technip	$1,354,856.39
Total SA	$19,268,448.33
UBS AG	$11,415,058.16

APPENDIX VI

COMPANIES HELD BY
SERS AND PSERS WHICH
MAY BE TARGETED FOR DIVESTMENT
(at June 30, 2007)

COMPANIES HELD BY SERS WHICH MAY BE TARGETED FOR DIVESTMENT (HB 1085) (at June 30, 2007)

1 AGGREKO
2 ALCAN INC
3 ALCATEL LUCENT
4 ALLIANZ SE (SOCIETAS EUROPEAE)
5 ALSTOM
6 AMERICAN EXPRESS CO
7 AMR CORP DEL
8 ASIA SATELLITE TELECOMMUNICATN
9 ASTRAZENECA
10 ATLAS COPCO
11 BAE SYSTEMS
12 BAKER HUGHES INC
13 BANCO BILBAO VIZCAYA
14 BANCO SANTANDER CENTRAL
15 BASF AG NPV
16 BAYER AG
17 BG GROUP
18 BHARAT HEAVY ELECTRIC LIGHT
19 BHP BILLITON LTD
20 BNP PARIBAS
21 BOEWE SYSTEC AG
22 BP PLC
23 BRISTOL MYERS SQUIBB CO
24 CANON INC
25 CHEVRON CORPORATION
26 CHINA PETROLEUM AND CHEMICAL
27 CNPC HONG KONG LTD
28 CONOCOPHILLIPS
29 CONTINENTAL AG
30 CRYOLIFE INC
31 CUMMINS INC
32 DAELIM INDUSTRIAL
33 DAIMLERCHRYSLER
34 DANIELI & CO
35 DELL INC
36 DEUTSCHE POST AG
37 DEVRO
38 DIGENE CORP
39 DOMINO PRINTING SCIENCES
40 E.ON AG
41 EBARA
42 ENGLOBAL CORP
43 ENI S P A
44 ERICSSON (L.M.)
45 EXXON MOBIL CORP
46 FAMILYMART
47 FORTIS GROUP
48 FOSTER WHEELER LTD
49 FRANCE TELECOM
50 GEA GROUP AG
51 GENERAL ELEC CO
52 GIVAUDAN AG
53 GS ENGINEERING & CONSTRUCTION
54 HALLIBURTON CO
55 HOLCIM

56 HONDA MOTOR CO
57 HSBC HLDGS
58 HYNIX SEMICONDUCTOR INC
59 HYUNDAI ENGR & CONSTR CO
60 HYUNDAI MOTOR CO
61 IMPREGILO SPA
62 INDIAN OIL CORP
63 ING GROEP
64 INGERSOLL-RAND COMPANY LTD
65 INTERTEK GROUP
66 INTESA SANPAOLO
67 JAPAN TOBACCO INC
68 KBC GROUPE
69 KEPPEL LD
70 LAFARGE SA
71 LINDE AG
72 LLOYDS TSB GROUP
73 LOCKHEED MARTIN CORP
74 L'OREAL
75 LUKOIL OIL COMPANY
76 MARATHON OIL CORP
77 MATSUSHITA ELEC INDL CO
78 MEDIOBANCA SPA
79 MEDTRONIC INC
80 MITSUBISHI CORP
81 MITSUBISHI ELECTRIC CORP
82 MITSUBISHI HEAVY IND
83 MITSUBISHI UFJ FINANCIAL GROUP
84 NEC CORP
85 NESTLE SA
86 NOKIA
87 NORDEA
88 NORSK HYDRO
89 NOVARTIS AG
90 OIL & NATURAL GAS
91 OSAKA GAS CO
92 PETRO-CANADA
93 PETROCHINA CO
94 PHARMION CORPORATION
95 PORSCHE AG
96 POSCO
97 PROCTER & GAMBLE CO
98 RAYTHEON CO
99 REGUS GROUP
100 RENAULT REGIE NATIONALE
101 REPSOL
102 RIO TINTO
103 ROCHE
104 ROLAND DG CORP
105 ROLLS ROYCE GROUP
106 ROYAL DUTCH SHELL
107 SAIPEM
108 SAMPO
109 SAMSUNG ELECTRONICS CO
110 SAMSUNG FIRE & MARINE
111 SAMSUNG HEAVY
112 SASOL LTD
113 SCHERING PLOUGH CORP
114 SCHINDLER HLDG AG
115 SCHLUMBERGER LTD

116 SIEMENS AG
117 SK KAKEN CO
118 SKF AB
119 SONY CORP
120 STANDARD CHARTERED
121 STARWOOD HOTELS & RESORTS
122 STATOIL ASA
123 SUMITOMO MITSUI
124 SWISS REINSURANCE
125 SYNGENTA AG
126 SYNTHES INC
127 TECHNIP SA
128 TEMENOS GROUP
129 TENARIS SA
130 TEREX CORP
131 TOTAL SA
132 TOYOTA MOTOR CORP
133 TUI AG
134 TUPRAS
135 UBS AG
136 UNILEVER PLC
137 VESTAS WIND SYSTEM
138 VINCI
139 WEATHERFORD INTERNATIONAL LTD
140 WYETH
141 XEROX CORP

COMPANIES HELD BY PSERS WHICH MAY BE TARGETED FOR DIVESTMENT (HB 1087)
(at June 30, 2007)

1 3M CO
2 ABB LTD
3 ACS ACTIVIDADES CO
4 AGFA GEVAERT NV
5 AGGREKO ORD
6 AIR FRANCE KLM
7 AISIN SEIKI CO
8 ALCAN INC
9 ALCATEL LUCENT
10 ALLIANZ SE (SOCIETAS EUROPEAE)
11 ALSTOM
12 AMEC ORD
13 AMERICAN EXPRESS CO
14 AMR CORP
15 AON CORP
16 ASIA SATELLITE TELECOM
17 ASTRAZENECA
18 ATLAS COPCO AB
19 AUSTRALIA & NEW ZEALAND BANK
20 BAE SYSTEMS
21 BAKER HUGHES INC
22 BANCO DE SABADELL SA
23 BANCO SANTANDER CENTRAL
24 BANK OF CHINA LTD
25 BARCLAYS
26 BASF AG NPV
27 BAYER AG ORD NPV
28 BBVA
29 BEIERSDORF AG
30 BG GROUP PLC ORD
31 BHARAT HEAVY ELECTRIC LIGHT
32 BHP BILLITON LIMITED
33 BLUE NILE INC
34 BNP PARIBAS
35 BOEING CO
36 BOSCH CORP
37 BP PLC
38 BRISTOL MYERS SQUIBB CO
39 BRITISH AIRWAYS
40 CAMERON INTL CORP
41 CANON INC
42 CARLSBERG
43 CARPHONE WAREHOUSE
44 CASIO COMPUTER
45 CHEVRON CORPORATION
46 CHINA PETROLEUM AND CHEMICAL
47 CHIYODA CORP

48 COCA COLA CO
49 COMMERZBANK AG
50 COMPAGNIE GENERALE DE
51 COMPASS GROUP
52 CONOCOPHILLIPS
53 CONTINENTAL AG
54 COSMO OIL
55 CREDIT AGRICOLE SA
56 CREDIT SUISSE GROUP
57 CRYOLIFE INC
58 CUMMINS INC
59 DAELIM INDUSTRIAL CO
60 DAIHATSU MOTOR CO
61 DAIMLERCHRYSLER AG
62 DANIELI & C
63 DELL INC
64 DEUTSCHE BANK AG
65 DEUTSCHE LUFTHANSA
66 DEUTSCHE POST
67 DEUTZ AG
68 DEVRO ORD
69 DIGENE CORP
70 DONGFENG MOTOR GROUP CIE
71 DOOSAN CO
72 DOOSON INFRACORE CO
73 E.ON AG
74 E1 CORPORATION
75 EASTMAN CHEM CO
76 EASTMAN KODAK CO
77 EBARA
78 ELECTRICITY GENERATING ALIEN
79 ELECTROLUX AB
80 ENEL
81 ENI S P A
82 ERICSSON (L.M.)
83 ERICSSON L M TEL CO
84 EXXON MOBIL CORP
85 FAMILYMART
86 FIAT SPA
87 FINMECCICA SPA
88 FLSMIDTH & CO A/S
89 FLUOR CORP NEW
90 FORBO HLDGS AG
91 FORD MTR CO
92 FORTIS GROUP
93 FOSTER WHEELER LTD
94 FRANCE TELECOM
95 FUJI ELECTRIC HOLDINGS CO
96 GEA GROUP AG
97 GENERAL ELEC CO
98 GIVAUDAN AG
99 GS ENGINEERING & CONSTRUCTION

100 HALLIBURTON CO
101 HEINEKEN NV
102 HENKEL KGAA
103 HOLCIM
104 HONDA MOTOR CO
105 HSBC HLDGS
106 HYNIX SEMICONDUCTOR INC
107 HYUNDAI HEAVY IND CO
108 HYUNDAI MOTOR CO
109 HYUNDAI MTR CO
110 IMPREGILO SPA
111 ING GROEP N.V.
112 INGERSOLL-RAND COMPANY LTD
113 INTESA SANPAOLO
114 ITOCHU CORP
115 JAPAN TOBACCO INC
116 JGC CORP
117 KANEMATSU CORP
118 KAWASAKI HEAVY INDUSTRIES
119 KBC GROUPE
120 KEPPEL CORP
121 KEPPEL LD
122 KOMATSU
123 KOREA ELEC PWR CORP
124 KT CORP
125 KUDELSKI SA
126 LAFARGE SA
127 LG ELECTRONICS INC
128 LINDE AG
129 LLOYDS TSB GROUP
130 LOCKHEED MARTIN CORP
131 L'OREAL
132 LUKOIL OIL CO
133 LUNDIN PETROLEUM
134 MAN GROUP
135 MARATHON OIL
136 MARUBENI CORP
137 MARUBUN CORP
138 MATSUSHITA ELEC INDL CO
139 MAZDA MOTOR CORP
140 MEDTRONIC INC
141 MERCK & CO INC
142 MISYS ORD
143 MITSUBISHI CHEMICAL HOLDINGS
144 MITSUBISHI ELECTRIC CORP
145 MITSUBISHI HEAVY IND
146 MITSUBISHI MOTOR CORP
147 MITSUBISHI UFJ FINANCIAL GROUP
148 MITSUI & CO
149 NATIXIS
150 NEC CORP
151 NEC ELECTRONICS

152 NEC FIELDING. LTD
153 NEC LEASING LTD
154 NEC SYS INT & CONS
155 NESTLE SA
156 NIPPON YUSEN KK
157 NISSAN MOTOR CO
158 NOKIA (AB) OY
159 NOKIA CORP
160 NORSK HYDRO
161 NORSK HYDRO ASA
162 NORSKE SKOGSINDUSTRIER
163 NOVARTIS AG
164 OIL & NATURAL GAS
165 OIL CO LUKOIL
166 OMV AG
167 ORASCOM TELECOM HLDGS
168 OSAKA STEEL CO
169 PACCAR INC
170 PERNOD-RICARD
171 PETRO-CANADA
172 PETROCHINA CO
173 PETROFAC LTD
174 PEUGEOT SA
175 PHARMION CORPORATION
176 PIRELLI & CO
177 POSCO
178 POSCO REFRACTORIES
179 PRIDE INTL INC
180 PROCTER & GAMBLE CO
181 PROTON HLDGS BHD
182 PUBLICIS GROUPE SA
183 PUBLIGROUPE AG
184 RAYTHEON CO
185 REGUS GROUP ORD
186 RELIANCE INDS
187 RENAULT REGIE NATIONALE
188 REPSOL YPF SA
189 RIO TINTO ORD
190 ROCHE HLDG AG
191 ROLAND CORP
192 ROLLS ROYCE GROUP
193 ROYAL DUTCH SHELL
194 SAIPEM
195 SAMSUNG CO
196 SAMSUNG ELECTRONICS CO
197 SANDEN
198 SANYO ELECTRIC CO
199 SASOL LTD
200 SCANIA AB
201 SCHERING PLOUGH CORP
202 SCHINDLER HLDG AG
203 SCHLUMBERGER LTD

204 SCHNEIDER ELECTRIC
205 SCOTTISH & NEWCASTLE PLC
206 SEB SA
207 SEIKO EPSON CORP
208 SEIKO HOLDINGS CORP
209 SEMBCORP INDUSTRIES
210 SEMBCORP MARINE
211 SGL CARBON AG
212 SGS SA
213 SHIMANO INC
214 SIEMENS AG
215 SKF AB
216 SNC-LAVALIN GROUP
217 SOCIETE GENERALE
218 SOCO INTERNATIONAL
219 SOJITZ CORPORATION
220 SONY CORP
221 STADA ARZNEIMITTEL AG
222 STANDARD CHARTERED
223 STARWOOD HOTELS & RESORTS
224 STATOIL ASA
225 STOLT OFFSHORE
226 STRAUMANN HLDG
227 STRYKER CORP
228 SULZER AG
229 SUMITOMO CHEMICAL
230 SUMITOMO CORP
231 SUMITOMO ELECTRIC IND
232 SUMITOMO MITSUI GR
233 SWISS REINSURANCE
234 SYNTHES. INC
235 TAISEI CORP
236 TECHNIP SA
237 TELE2 AB
238 TELECOM ITALIA
239 TEMENOS GROUP
240 TENARIS SA
241 TEREX CORP
242 THALES
243 THYSSENKRUPP AG
244 TOSHIBA CORP
245 TOSHIBA TEC CORP
246 TOTAL SA
247 TOYO ENGINEERING CORP
248 TOYOTA MOTOR CORP
249 TRUE CORP PLC
250 TUI AG NPV
251 TUPRAS
252 UBS AG
253 UNILEVER NV
254 UNITED PARCEL SVC
255 UTI BANK

256 VALEO
257 VESTAS WIND SYSTEM
258 VINCI
259 VIVENDI UNIVERSAL
260 VOESTALPINE AG
261 VOLKSWAGEN AG
262 VOLVO (AB)
263 WARTSILA
264 WATERS CORP
265 WEATHERFORD INTERNATIONAL LTD
266 WEIR GROUP
267 WYETH
268 XEROX CORP
269 X-RITE INC
270 YAMAHA CORP
271 YAMAHA MOTOR CO
272 YAMATAKE CORPORATION

APPENDIX VII

HOUSE RESOLUTION NO. 263

(2003 Legislative Session)

PRINTER'S NO. 1580

THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE RESOLUTION

No. 263 Session of 2003

INTRODUCED BY HASAY, BAKER, BELARDI, BELFANTI, BOYD, BUNT, CAPPELLI, CREIGHTON, CURRY, DeWEESE, FAIRCHILD, GABIG, GEIST, GEORGE, GILLESPIE, GRUCELA, HARRIS, HERMAN, HERSHEY, HESS, LaGROTTA, MARSICO, MUNDY, PICKETT, PISTELLA, READSHAW, REED, SATHER, SCHRODER, SHANER, B. SMITH, SOLOBAY, STERN, TANGRETTI, E. Z. TAYLOR, THOMAS, TIGUE, WATERS, HENNESSEY, HARHAI AND SCRIMENTI, MAY 5, 2003

REFERRED TO COMMITTEE ON RULES, MAY 5, 2003

A RESOLUTION

Directing the Legislative Budget and Finance Committee to study global security risk assessment of the State Employees' Retirement Fund, the Public School Employees' Retirement Fund and the State Treasury.

WHEREAS, International terrorism and the development and proliferation of weapons of mass destruction are the most pressing national security concerns presently facing the United States; and

WHEREAS, Official United States sanctions largely prohibit United States companies from doing business with countries that the United States Department of State has designated as sponsoring terrorism, including Iran, Iraq, Libya, Syria, Sudan and North Korea; and

WHEREAS, The activities of these terrorist-sponsoring governments pose a grave threat to the security and well-being of the citizens and institutions of this Commonwealth and the nation; and

WHEREAS, Terrorist-sponsoring governments are known to derive critically needed revenues, equipment, technology and financing from publicly traded companies operating in their countries; and

WHEREAS, It is important to avoid the possibility that the retirement dollars of public employees of this Commonwealth are contributing to the twin scourges of international terrorism and the development and proliferation of weapons of mass destruction; and

WHEREAS, The Securities and Exchange Commission in May 2001 determined that business operations in terrorist-sponsoring countries can represent a material risk to investors; and

WHEREAS, There is a proven risk to the share value and corporate reputation of companies doing business in terrorist-sponsoring countries; and

WHEREAS, The Commonwealth needs to protect the retirement funds of public employees from the financial risk associated with portfolio companies that have business operations in terrorist-sponsoring countries; and

WHEREAS, There exists today no risk management program in this Commonwealth to address the growing challenge posed by the exposure of our public pension portfolios to global security risk; and

WHEREAS, Our public pension fund external managers are entrusted with the retirement funds of thousands of our public employees and, to date, have not produced risk mitigation strategies regarding global security risk; therefore be it

RESOLVED, That the House of Representatives direct the Legislative Budget and Finance Committee to study global security risk assessment of the State Employees' Retirement

Fund, the Public School Employees' Retirement Fund and the State Treasury to determine whether any asset manager or financial firm that manages assets of the fund:

(1) presently holds in its portfolio, companies that have ties to, or activities in, the terrorist-sponsoring countries and specific profiles of the companies' activities in each terrorist-sponsoring country, especially as they relate to the introduction or construction of advanced technologies or equipment;

(2) has made contributions to any government of a terrorist-sponsoring country, including taxes or royalties paid to the government, the value and estimated revenues associated with the project, projected government revenues stemming from the company's operations and corporate costs associated with the project;

(3) has identified any specific global security risk mitigation strategies undertaken by each portfolio company operating in terrorist-sponsoring countries;

(4) has identified any steps taken by any portfolio company to ensure that revenues generated by its operations are not utilized by the government of a terrorist-sponsoring country for the sponsorship of terrorism, the development or purchase of weapons of mass destruction and ballistic missiles or other military purposes;

(5) has identified any steps taken by any portfolio company to ensure that advanced technologies, equipment and facilities introduced or developed by the company are not utilized for noncivilian purposes;

(6) has identified any steps taken by any portfolio company to encourage the government of a terrorist-sponsoring

country to cease its sponsorship of terrorism and proliferation activities;

(7) has calculated performance ratings for all portfolio companies with links to designated terrorist-sponsoring countries;

(8) has adopted any alternative investment strategies and their impact on the fund, including how the portfolio might be altered to exclude companies with equity ties to governments of terrorist-sponsoring countries without damaging the profitability of the fund;

and be it further

RESOLVED, That the Legislative Budget and Finance Committee may hire or retain consultants as necessary to assist in the performance of its duties under this resolution; and be it further

RESOLVED, That the Legislative Budget and Finance Committee provide annual reports to the General Assembly regarding:

(1) Steps taken by the boards of trustees to communicate with portfolio companies operating in terrorist-sponsoring countries and the nature of such communications.

(2) Specific investment policy responses including, but not limited to, the divestment of select portfolio companies, if appropriate, that invest in or conduct business with terrorist-sponsoring countries unless and until such time as the United States Department of State no longer designates that country as a terrorist-sponsoring country.

APPENDIX VIII

HOUSE RESOLUTION NO. 36

(2007 Legislative Session)

PRINTER'S NO. 35

THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE RESOLUTION

No. 36

Session of 2007

INTRODUCED BY D. EVANS AND NICKOL, JANUARY 30, 2007

REFERRED TO COMMITTEE ON STATE GOVERNMENT, JANUARY 30, 2007

A RESOLUTION

Establishing a select committee to study potential courses of action for Commonwealth departments, agencies and pension systems that make investments in, procure goods and services from or otherwise do business with companies conducting business in or with the Republic of Sudan.

WHEREAS, The Sudanese government is engaged in ongoing armed conflict with ethnic tribesmen in the Darfur region of Sudan who rebelled against the government; and

WHEREAS, In the course of combating the rebellion, the Sudanese government has used armed forces and armed militants to conduct atrocities against Darfurians, including many noncombatants; and

WHEREAS, Atrocities include the murder of nearly 400,000 people, displacement of 2.5 million people, razing of more than half of the villages in northern Darfur, forced starvation and enslavement; and

WHEREAS, The President and Congress of the United States and the State Department have concluded that the actions of the Sudanese government amount to genocide; and

WHEREAS, The State Department has reported that Sudanese government forces have pursued a scorched-earth policy to remove populations settled around a newly constructed oil pipeline and other oil production facilities; and

WHEREAS, The United Nations International Commission of Inquiry on Darfur has stated that the Sudanese government is responsible for indiscriminate attacks, including murder, torture, forced disappearances, destruction of villages, rape and other forms of sexual violence, pillaging and displacement; and

WHEREAS, The genocidal actions of the Sudanese government have continued despite United States limitations on American-based companies conducting business in the Republic of Sudan; and

WHEREAS, Genocide, enslavement and other cited atrocities are repugnant to the basic principles of liberty and justice contained in the Bill of Rights of the Constitution of the United States and in the Declaration of Rights in Article I of the Constitution of Pennsylvania, principles which are fundamental to the character of a free society; and

WHEREAS, Certain Commonwealth departments, agencies and pension systems invest pension and taxpayer funds in, procure goods and services from or otherwise do business with foreign companies that conduct operations internationally; and

WHEREAS, There is concern that certain foreign companies conducting business in the Republic of Sudan are providing the Sudanese government with revenue or infrastructure that may facilitate the atrocities; and

WHEREAS, There is concern that certain foreign companies operating in the Republic of Sudan are providing significant revenue, support and arms to the Sudanese government while providing little benefit to Sudanese citizens; and

WHEREAS, There is concern that the Sudanese government has funneled the majority of foreign direct investment from these companies into military expenditures used to perpetuate atrocities in Darfur while neglecting needed development projects in that region; and

WHEREAS, There are reports that certain foreign companies with business ties to the Republic of Sudan are engaged in critical humanitarian and economic development efforts that benefit oppressed citizens of Sudan, particularly in the southern region of the country where the population is enjoying relative peace and attempting to rebuild the regional economy; and

WHEREAS, The United States Government has failed to provide any clear guidance that would enable states to authoritatively distinguish between companies engaged in activities that facilitate atrocities and those that are aiding Sudanese citizens; and

WHEREAS, The United States Government has failed to provide specific recommendations regarding what actions, consistent with United States foreign policy goals, states could or should take with regard to companies conducting business in the Republic of Sudan; and

WHEREAS, The lack of Federal guidance persists despite repeated urgings of the largest public pension systems in this Commonwealth and numerous national organizations, including the National Conference of State Legislatures, the National Association of State Retirement Administrators, the National Association of State Auditors, Comptrollers and Treasurers and the National Council on Teacher Retirement; and

WHEREAS, Commonwealth residents find the actions of the Sudanese government in Darfur to be repugnant to basic principles of humanity and in violation of fundamental principles of human rights and personal freedom embodied within the Constitution of the United States and the Declaration of Rights in the Constitution of Pennsylvania; and

WHEREAS, The Commonwealth recognizes the complexity and difficulty of determining whether particular companies doing business in the Republic of Sudan ultimately contribute to the benefit or harm of Sudanese citizens and likewise the complexity and difficulty of determining whether and to what degree any State action might truly affect the lives of Sudanese citizens; therefore be it

RESOLVED, That the House of Representatives establish a select committee to study potential courses of action for Commonwealth departments, agencies and pension systems that make investments in, procure goods and services from or otherwise do business with companies conducting business in or with the Republic of Sudan; and be it further

RESOLVED, That the committee consist of nine members of the House of Representatives as follows:

(1) The Speaker of the House of Representatives.

(2) The chairman and minority chairman of the Appropriations Committee of the House of Representatives.

(3) The chairman and minority chairman of the Education Committee of the House of Representatives.

(4) The chairman and minority chairman of the Policy Committee of the House of Representatives.

(5) Appointees designated by the Majority and Minority

Leaders of the House of Representatives; and be it further

RESOLVED, That the members of the committee choose from among themselves a chairman and other officers as deemed necessary and draw upon their existing staff to assist in the work of the committee; and be it further

RESOLVED, That the committee document the existing state of affairs in the Republic of Sudan, including, without limitation, the relationship between Commonwealth departments, agencies and pension systems investing in, procuring goods and services from and otherwise doing business with companies in the Republic of Sudan and policies of the Sudanese government; and be it further

RESOLVED, That Commonwealth agencies and departments be directed to assist the committee in its investigation; and be it further

RESOLVED, That the committee study the issue of what courses of action, if any, might be available to the Commonwealth to influence in a meaningful way the conduct of companies doing business in the Republic of Sudan; and be it further

RESOLVED, That the committee report on the relative degree to which various courses of action might be expected to have a meaningful, positive impact on the lives of the oppressed Sudanese citizens; and be it further

RESOLVED, That the committee study the question of how measures could be implemented consistent with Federal law regarding the rights of the Federal Government to conduct foreign policy; and be it further

RESOLVED, That, if the committee finds that State action with regard to specific Sudan-related assets could favorably influence the behavior of the Sudanese government toward its oppressed citizens and is consistent with Federal law, the committee study the financial impact on the Commonwealth; and be it further

RESOLVED, That the committee consider the following:

(1) Actions taken by other states with respect to their investment funds.

(2) Legislation enacted by or pending in the Congress.

(3) Information compiled by the Federal Government, especially the State Department, relating to the Republic of Sudan.

(4) Coordination among shareholders or other investment funds.

(5) The status and prospects of litigation pending in other jurisdictions regarding the authority of the states to pursue similar actions.

(6) Any other information the committee determines to be relevant;

and be it further

RESOLVED, That the committee have the power to obtain the necessary information from any group or individual deemed helpful in reaching a recommendation; and be it further

RESOLVED, That in assessing potential courses of action, the committee be mindful of the fiduciary duties of the public pension systems, determine if any course of action conflicts with those duties and determine what steps the Commonwealth could take to ensure that fiduciaries are held harmless against all losses suffered by the public pension systems as a result of their compliance with a legislatively directed course of action; and be it further

RESOLVED, That the House of Representatives and the Senate are encouraged to collaborate in the development of their respective committees, the holding of hearings and the development of a report of findings in order to work in a unified manner to address this issue; and be it further

RESOLVED, That the committee make a report of its findings to the House of Representatives by June 30, 2007.

APPENDIX IX

CORRESPONDENCE REQUESTING
GUIDANCE FROM FEDERAL AUTHORITIES

COMMONWEALTH OF PENNSYLVANIA
STATE EMPLOYEES' RETIREMENT SYSTEM
30 NORTH THIRD STREET - P.O. BOX 1147
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FAX: 717-772-3741
www.sers.state.pa.us

December 23, 2004

Ms. Cecelia D. Blye
Director
Office of Global Security Risk
U.S. Securities and Exchange Commission (SEC)
450 Fifth Street, NW
Washington, DC 20549-0609

Dear Cecelia:

I would like to thank you for taking the time to meet with me and other representatives of the institutional investor community on December 13, 2004, to discuss the activities of the Office of Global Security Risk (OGSR). I appreciate your willingness to share your plans with us and thank you for providing us the opportunity to offer our thoughts on the types and format of disclosures investors might find helpful in their investment risk analyses.

I am writing to you on behalf of the Pennsylvania State Employees' Retirement System (SERS), one of the largest public pension systems and institutional investors in the U.S., with over $25 billion in assets providing over $1.2 billion dollars annually in retirement, disability and death benefits on behalf of more than 200,000 active members, retirees and their families.

The OGSR mandate, as it is detailed in the House report to the Fiscal 2004 Appropriations Bill, specifically called on OGSR to (1) identify all companies on U.S. exchanges operating in State Department-designated terrorist-sponsoring states; (2) ensure that all companies sold on U.S. exchanges operating in State Department-designated terrorist-sponsoring states are disclosing such activities to investors; (3) implement enhanced disclosure requirements based on the asymmetric nature of the risk to corporate share value and reputation stemming from business interests in these higher risk countries; (4) coordinate with other government agencies to ensure the sharing of relevant information across the federal government; and (5) initiate a global dialogue to ensure that foreign corporations whose shares are traded in the United States are properly disclosing their activities in State Department-designated terrorist-sponsoring states to American investors.

Our specific intention in meeting with you was to more clearly understand how the OGSR is planning to implement its legislative mandate and to offer our recommendations. Our initial recommendations were that OGSR, if it intended to comply with the precise terms of the legislation, could best serve the needs of investors by providing the following information:

- <u>Prompt and concise disclosures</u> by a company of its operations (either directly or through an offshore affiliate/subsidiary) in a country classified as supporting terrorism or subject to sanctions, clear and concise descriptions of those operations, the company's assessment of their materiality, and whether they are within acceptable guidelines set by the federal government.

- Readily accessible disclosures via a unique filing type or under a unique header in the 10-K or 10-Q filings.

- Investment Risk Assessment Database – We envisioned a searchable, publicly available database, compiled by the SEC, of public companies that are doing business in, or have operations in, countries classified as supporting terrorism or subject to sanctions.

- National Security Risk Assessment Database – We envisioned the SEC sharing information and coordinating with other appropriate federal agencies such as the Departments of Homeland Security, Treasury and State to jointly identify and disclose companies that pose national security risks and that are prohibited as investments.

The above recommendations are designed to assist investors in identifying two different categories of risks that are associated with companies that have business operations in State Department-designated terrorist-sponsoring states. The first is investment risk, which falls within the purview of the SEC, and the second involves national security risk, which requires federal inter-agency coordination.

At our meeting, you indicated that the SEC does not consider the risk associated with companies operating in State Department-designated terrorist-sponsoring states as being different from any other investment risk. Further, you indicated that OGSR will not identify companies on U.S. exchanges operating in these countries because separately reporting this information to investors or others would wrongly imply that terrorism risk is, in fact, different from other investment risks.

You also noted that OGSR's initiatives in this area will rely on the current procedure of reviewing, and offering comments on, information that is provided to the SEC in public company filings, and that OGSR's recommendation to investors is that they rely on the following sources of information for purposes of analyzing these types of risks:

1. Annual and quarterly 10-K and 10-Q filings – Companies must disclose the existence of any material activities in terrorist-sponsoring countries, including the name of the country or countries involved. You noted that although the SEC's current rules do not mandate that disclosure be provided in a specific place or under a special header in the filings, investors interested in focusing on these relationships may do key word searches--for example, using a particular country name--to locate any relevant disclosures anywhere in the document.

2. SEC comment letters – You informed us that the SEC's website will include all comment letters issued or received after Aug. 1, 2004, as part of the staff's review of company filings. The correspondence, which must be posted within 45 days after a filing is effective, will be searchable and may include requests for details or additional information on company operations in terrorist-sponsoring states. Company responses to staff comments will also be available on the site, although highly sensitive information may be redacted. Staff comment letters and company responses are not yet available online, and it is unclear at this point where the correspondence will be available on the SEC's website.

You indicated that OGSR would require disclosure of all "material" operations in countries listed by the federal government as terrorist-sponsoring states. The SEC defines materiality as information that might impact an investment decision of a reasonable investor. As with other materiality assessments, reporting companies have total discretion to determine the materiality of these operations. Companies that consider their business operations in State Department-designated terrorist-sponsoring states to be immaterial would not be required to disclose those operations. However, companies that fail to disclose information that the SEC later determines to be material would be subject to SEC comment or other enforcement action.

You stated that OGSR's approach to the oversight process will be to review and comment on disclosure items found in the samples of filings annually selected for review by the Office of Corporate Finance at the Commission. You further indicated that OGSR would not undertake rulemaking or provide proactive guidance to all corporations reporting to the Commission on these matters.

To reiterate, we understand that it is OGSR's policy to treat investment risks associated with companies operating in State Department-designated terrorist-sponsoring states as not being different from any other investment risks. We realize that the foundation for OGSR's assessment/determination/belief is that the investment risks related to companies operating in State Department-designated terrorist-sponsoring states should be treated in the same manner as any other investment risk.

We are pleased that you have provided us the opportunity to meet with you to discuss OGSR's initiatives and to begin this dialogue. We look forward to continuing discussions on this important topic.

Sincerely,

Eric Henry
Executive Director

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

DIVISION OF
CORPORATION FINANCE

September 8, 2004

SEP 13 9 52 AM '04

Nicholas J. Maiale, Chairman
Commonwealth of Pennsylvania
State Employees' Retirement System
30 North Third Street
P.O. Box 1147
Harrisburg, PA 17108-1147

Dear Mr. Maiale:

Thank you for your August 24th letter to Chairman Donaldson regarding your desire that the federal government publish a list of publicly traded companies it has determined compromise national security. In your letter, you ask that this agency work with other appropriate federal agencies to provide such a list.

As you acknowledge in your letter might be the case, this agency does not have the expertise, information or, to some degree, jurisdiction necessary to compile such a list. Other agencies are uniquely positioned to make judgments as to whether a particular company's activities might threaten or compromise our nation's security interests. Further, it would not be appropriate for us to attempt to publish such a list, or lend our imprimatur to publication of such a list by another party, because our doing so might be construed as providing investment advice. As the agency charged with regulating the securities markets, publicly traded companies, and registered investment advisers, the SEC must at all times refrain from activity that would make it appear that we recommend or prefer one company over another. You may wish to consider contacting other, more appropriate agencies, to determine whether they are able to assist you in addressing your concerns. However, we will continue to ensure that public companies provide full and fair disclosure of material information for all investors to consider in making their investment decisions.

I regret that we are not able to be of greater assistance to you in this matter. I appreciate your making us aware of your views and your concerns.

Sincerely,

Martin P. Dunn

Martin P. Dunn
Deputy Director

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www.sers.state.pa.us

August 24, 2004

The Honorable William H. Donaldson
Chairman
Securities and Exchange Commission
450 5th Street, NW
Washington, DC 20549

Re: Pension Fund Investments and National Security Policy

Dear Secretary Donaldson:

I would like to thank you for responding to our June 29 letter concerning our fund's desire to avoid investing our pension assets in companies whose operations might directly or indirectly support terrorism. In that letter we indicated our desire to invest in a manner which would minimize the investment risk to our pensioners and promote our nation's security interests. Further, we expressed our concern that investors are unwittingly financing corporate operations that would be deemed to be contrary to our national interest. We requested that the SEC publish a list of companies whose securities involve investment risk arising from terrorist-supporting activity by the companies or their affiliates.

In your response, you indicated the review staff of the Division of Corporate Finance would make every effort to ensure that the documents companies file with the SEC include full disclosure of all material information regarding terrorism-related and other global risk-related issues. Although we are encouraged by the fact that the SEC's newly established Office of Global Security Risk will be overseeing this initiative, we are deeply concerned that the disclosure requirement does not fully address the issues we raised.

While these public disclosures may help SERS and other investors assess the investment risk of these companies due to their operations in various countries, it does not address the equal, if not more important, issue as to whether or not these investments in fact compromise U.S. national security. State pension funds and their investors do not have the expertise or total information to make that kind of evaluation. Only the federal government can determine whether or not such investments may compromise national security. The complexity of national security involves issues of national defense, international relations and politics, and economic policies. Some of these issues may well involve classified information not available to the public.

While we know you are dealing with a myriad of issues related to our nation's securities markets, this matter is a pressing issue for our fund and the numerous pension funds throughout the country. Its importance has been highlighted recently in a report entitled *The Terrorism Investment of 50 States,* widely publicized on August 12, 2004, by a group which identifies itself as The Center for Security Policy (CSP). This report stated that its analysis proves "empirically that this nation's largest and most prominent public pension systems tend to be heavily invested in globally publicly traded companies that have business activities in terrorist-sponsoring companies." The language of the report raised the specter of public pension funds unwittingly supporting terrorists' activities through their investment holdings. The CSP report was extensively quoted in the national press, leading to sensationalistic stories in the press best illustrated by FOX news which ran the following provocative headline "*Pension Money Flowing to Rogue States.*" However, the underlying facts are far more complex and not nearly as sensational.

SERS was identified in the CSP report as one of the pension systems included potentially investing in companies whose activities are against the interest of the United States.

SERS is troubled that the facts cited in the report, as they relate to Pennsylvania's pension fund investments, appear to be inaccurate and incomplete. In addition, there has also been some skepticism about the validity of the report since its analysis was compiled by a company named Conflict Securities Advisory Group, which has been aggressively marketing a commercial product ostensibly designed to identify companies doing business in so-called terrorist countries. While the motivation behind the report may be suspect, and the data may be inaccurate and misleading, SERS remains deeply concerned about the possibility that public pension fund investments inadvertently may compromise the national security of the United States. The report specifically cited SERS investments in Alcatel SA, Hyundai Merchant Marine, Statoil ASA, Total SA and UBS AG as such examples.

The fact that a publicly traded company might have business relations with a country deemed to be supporting international terrorism does not necessarily mean that the company's activities are illegal with regard to U.S. laws and regulations, nor against national security policy. To the contrary, certain companies doing business in these countries might actually be engaged in federally sanctioned political, humanitarian, economic, or military activities that further U.S. national security interests.

It is clearly the role of the federal government to provide for national security policies. The Preamble to the U.S. Constitution of the United States of America clearly states it is the role of the federal government "to provide for the common defense." The federal government's intelligence, military, diplomatic, and financial regulatory agencies are better positioned than state pension funds or a private company to identify, monitor, and report on foreign and domestic companies that may be engaging in activities that are potentially threatening to our national security.

It is imperative that public pension funds as well as other investors be provided with a list of publicly traded companies which the federal government has determined compromise national security. We recognize that your agency may not have the resources to determine this list alone. We ask you to work with other appropriate federal agencies to provide such a list to the investing public. It would be unwise for state pension plans to each develop their own national security initiatives. Please help us fight terrorism together

Sincerely,

Nicholas J. Maiale
Chairman

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

DIVISION OF
CORPORATION FINANCE

July 28, 2004

AUG 2 9 39 AM '04

Nick Maiale, Chairman
Commonwealth of Pennsylvania
State Employees' Retirement System
30 North Third Street
P.O. Box 1147
Harrisburg, PA 17108-1147

Dear Mr. Maiale:

Thank you for your June 29th letter to Chairman Donaldson regarding your interest in the work of our new Office of Global Security Risk. In your letter, you express your desire to avoid investing the pension assets under your control in companies whose operations might directly or indirectly support terrorism. You indicate that you would like the SEC to publish a list of companies whose securities involve investment risk arising from terrorist-supporting activity by the companies or their affiliates and indicate that our doing so would provide a valuable service to your fund and many other public pension funds.

We certainly can appreciate your desire to invest in a manner that will both minimize the investment risk to your pensioners and promote our nation's security interests. We share your concern that American investors not unwittingly finance corporate operations they would deem to be contrary to our national interest. For this reason, the review staff of the Division of Corporation Finance makes every effort to ensure that the documents companies file with this agency include full disclosure of all material information regarding terrorism-related and other global security risk-related issues. The new Office of Global Security Risk will work closely with the review staff to make sure that our front-line reviewers are apprised of all significant developments in this area, and that we maintain the highest standard of review in considering these issues. Our mission, and our commitment, is to ensure that the investing public has all the information about public companies that a reasonable investor would consider important in deciding whether to buy or sell securities.

In light of the public trust we hold, it is crucial to the successful execution of our mission that we not engage in any activity that might give the appearance of bias or partiality in the performance of our duties. It would be inappropriate for us to publish a list of companies whose securities might be deemed to involve terrorism-related investment risk without publishing corresponding lists for every other possible type of investment risk. It also would be inappropriate for us to engage in any activity that might be construed as providing investment advice. In our view, a far more workable approach,

Nick Maiale, Chairman
Commonwealth of Pennsylvania
State Employees' Retirement System
Page Two

even in these times of heightened concern about terrorism-related and other global security-related investment risk, is for the staff to continue to pursue the best disclosure possible, so that the publicly available documents on file with this agency will give pension fund managers and other investors ready access to all of the information they need about any public company to make a fully informed investment decision.

I hope this information is helpful to you. I very much appreciate your letting us know your views. As we go forward in addressing global security risk related issues, it is helpful to hear from all interested persons so that we can best fulfill our mission of investor protection.

Sincerely,

Shelley E. Parratt
Deputy Director

COMMONWEALTH OF PENNSYLVANIA
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TOLLFREE: 1-800-633-5461
www.sers.state.pa.us

June 29, 2004

The Honorable William H. Donaldson
Chairman
Securities and Exchange Commission
450 5th Street, NW
Washington, DC 20549

The Honorable Tom Ridge
Secretary
Department of Homeland Security
Washington, DC 20528

Gentlemen:

The Pennsylvania State Employees' Retirements System (SERS) is a public pension fund that invests in excess of $25 billion. In the investment of such funds in a prudent manner in satisfaction of its fiduciary responsibility, SERS' Board also seeks not to act in a way that would indirectly compromise the national security of this country. In this vein, SERS' Board would not want to invest in the securities of companies that the government of the United States considers to be impermissible investments because of such companies' support of terrorist activities or their support of countries which support terrorist activities. SERS' Board also would like to know which companies pose a significant investment risk because of their or their affiliates' activities providing support to terrorist activities.

SERS is a member of the National Association of State Retirement Administrators (NASRA), which is part of a work group that helps state and local government retirement systems stay apprised of federal government rules concerning investment in countries that sponsor terrorism. NASRA sent a letter dated May 10, 2004 (a copy of which is attached), to the SEC requesting a meeting to discuss the work of the Office of Global Security Risk and its impact on institutional investors. SERS actively supports NASRA's desire to work with the SEC "to assure that any required disclosures provide useful and appropriate information to ascertain whether companies are engaging in business which might support terrorism."

SERS supports the goals of preventing investment in the securities of certain companies and advising investors of securities of companies that pose an investment risk because of their or their affiliates' terrorist supporting activities. In particular, SERS believes that the Office of Homeland Security should provide a list of companies whose securities should not be purchased and should continually update that list. SERS also believes that it would be desirable for the

Securities and Exchange Commission to provide current information on a continual basis of those companies whose securities pose an investment risk based on the terrorist supporting activities of such companies or their affiliates.

If the absolute non-investment in some companies and the identification of risk of investing in other companies based on support by such companies or their affiliates of countries engaged in or supporting terrorism is in our country's best interest, then it would seem that your two offices should step up and provide the relevant information. Your doing so would be a service to our fund and the many other public pension funds across our nation that seek to invest in a way that would not compromise the national security. SERS would be pleased to participate in meetings, as appropriate, to support your actions in the war on terror.

Very truly yours,

Nicholas J. Maiale
Chairman

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www.sers.state.pa.us

September 10, 2004

The Honorable Tom Ridge
Secretary
Department of Homeland Security
Washington, DC 20528

Re: Pension Fund Investments and National Security Policy

Dear Secretary Ridge:

As the former Governor of Pennsylvania, you are aware that the Pennsylvania State Employees' Retirement System (SERS) is one of the largest public pension systems in the U.S., with over $25 billion in assets. SERS' Board continues to seek the guidance and assistance of the U.S. Department of Homeland Security (DHS) and other federal agencies to assist us in ensuring that we are not investing SERS' assets in companies whose operations conflict with the federal government's goals in the fight against international terrorism.

SERS has previously corresponded with you on this topic (copy enclosed). We have also corresponded separately with the Securities and Exchange Commission (SEC) and the Department of the Treasury (Treasury) seeking their assistance with regard to this issue.

We believe your agency's assistance is critically important because of DHS' role in coordinating cooperation among federal agencies and assimilating information from numerous sources to, as you put it on your Web site, discover "links between people and organizations that help in understanding the global terrorist network." As you explore those linkages, SERS requests that DHS act to keep SERS and other pension funds informed in the event you determine that any publicly traded companies are engaged in activities that you deem to be potentially harmful to the United States or its citizens.

The DHS website indicates that your Department plans to establish a liaison function "to link state and local governments, companies, and individuals with the right person within DHS." DHS's unique ability to collaborate with other federal agencies, and to serve as a liaison between the federal government and the states is precisely the type of coordinated federal assistance SERS needs. It would be helpful to us if you could designate a contact person in your agency to serve as such a liaison between SERS and the various federal agencies.

Assessing Investment Risk

Because of the broad scope of national security issues implicated with evaluating classified non-public information and the analysis involved in making these important decisions, SERS has also sent correspondence to Chairman William Donaldson at the Securities and Exchange Commission and to Secretary John Snow at the Department of the Treasury seeking their agencies' advice and assistance as well. We specifically requested that the SEC provide information that would enable investors to identify companies whose securities involve investment risk arising because of its or its affiliates' dealings with countries that have been designated as operating in states the State Department identifies as state sponsors of terrorism.

While SERS is still awaiting a response from Treasury, the SEC responded to us that the review staff of the Division of Corporate Finance would make every effort to ensure that the documents companies file with the SEC include full disclosure of all material information regarding terrorism-related and other global risk-related issues. We are encouraged by the fact that the SEC's newly established Office of Global Security Risk will be overseeing this initiative and pleased by the scope of its mandate to require additional disclosure of this type of investment risk. Indeed, consistent with its past practices, SERS' external investment managers will continue to monitor, evaluate and incorporate all publicly available information, including these newly required SEC mandated disclosures, in evaluating investment risks and making investment decisions on SERS' behalf.

It is important to note that SERS is not seeking your assistance in evaluating these types of investment risks. The fact is that SERS has had a superior investment program. SERS' long-term investment performance (over the past 10 years, SERS returned 10.4% on an annualized basis, placing SERS in the first quartile for investment returns among its peers) demonstrates that SERS is quite capable of identifying investment risks.

Assessing National Security Risks

Unfortunately, however, the Office of Global Security Risk appears to be unable to assist us in addressing a companion issue of equal, if not greater, importance: whether these companies, through their business activities in terrorist-sponsoring states, are in fact compromising U.S. national security or undermining US foreign policy goals. State pension funds and their investors do not have the expertise or information to make that kind of evaluation. Only the federal government can determine whether or not investments in such companies may be helping to finance activities that are contrary to our nation's interests. The complexity of national security involves, of course, issues of national defense, international relations, politics, and economic policy. A thorough assessment of these issues is not possible without access to classified information.

We know you are dealing with a myriad of issues related to our nation's security, but this matter is a pressing issue for our fund and the numerous pension funds throughout the country. Its importance has been highlighted recently in a widely publicized report entitled *The Terrorism Investments of the 50 States,* dated August 12, 2004, issued by an entity that identifies itself as

The Center for Security Policy (CSP). That report stated that its analysis proves "empirically that this nation's largest and most prominent public pension systems tend to be heavily invested in global publicly traded companies that have business activities in terrorist-sponsoring states." The report implies that public pension funds are cavalierly supporting terrorists' activities through their investment holdings and in fact accuses the funds included in the report of "unconscionable behavior." The CSP report was extensively quoted in the national press, including the *Wall Street Journal,* leading to sensationalistic stories best illustrated by FOX News' provocative headline "*Pension Money Flowing to Rogue States.*"

The CSP report only targeted public defined benefit pension funds and their millions of members and beneficiaries for these baseless but reputation-damaging allegations. Indeed, CSP's report avoids making similar allegations against corporate pension funds, mutual funds, commercial and investment banks, brokerages and millions of U.S. individual investors who invest in these same companies.

SERS was identified in the CSP report as one of the pension systems with terror-linked investments. The report claims that fully 22 percent of SERS' equity investments - $3.3 billion worth – are in companies that either have ties to terrorist-sponsoring states or that pose "proliferation-related concerns." Other public funds are alleged to have similar levels of "exposure." The report does not claim that any of these companies are engaged in any illegal activity. Nor does it even identify most of them; the five "sample" holdings listed for SERS (Alcatel SA, Hyundai Merchant Marine, Statoil ASA, Total SA and UBS AG) represent less than ½ of 1 percent of SERS' portfolio. Nonetheless, the report calls on America's pension funds to <u>divest</u> all such holdings. As you can well understand, such a wholesale sell-off would wreak havoc with US financial markets.

SERS is troubled that the facts cited in the report, as they relate to SERS' investments, appear to be inaccurate and incomplete. In addition, there is also reason to be skeptical of the validity of the report since Conflict Securities Advisory Group, which shares a Washington address with CSP, compiled CSP's analysis. CSAG is a commercial business that has been aggressively marketing a commercial product ostensibly designed to identify companies doing business in so-called terrorist countries. Only by purchasing the CSAG service could SERS identify the companies CSP would have SERS divest.

While the motivation behind the report is suspect, and the data inaccurate and misleading, SERS remains deeply concerned about the possibility that public pension fund investments may inadvertently compromise the national security of the United States.

Clearly, however, it would be unwise for state pension plans to each attempt to develop its own national security initiatives. Such activities could potentially destroy company value and reputation as well as thousands of American jobs, thereby destabilizing the financial markets and the economy while causing serious financial damage to the funds themselves.

If there are publicly traded companies whose activities are deemed by the federal government to compromise national security, it is imperative that the federal government provide that information to public pension funds. We ask you to work with other appropriate federal agencies to determine whether there are companies in which we should not invest for national security reasons and, if so, to provide a list of those companies to the investing public. We would be delighted to have the opportunity to meet with you or your designated liaison at your convenience to discuss this issue further.

Thank you for your attention to this matter.

Sincerely,

Nicholas J. Maiale
Chairman

COMMONWEALTH OF PENNSYLVANIA
STATE EMPLOYEES' RETIREMENT SYSTEM
30 NORTH THIRD STREET - P.O. BOX 1147
HARRISBURG, PENNSYLVANIA 17108-1147
TELEPHONE: 717-787-9008
FAX: 717-772-3741
www.sers.state.pa.us

September 7, 2004

The Honorable John W. Snow
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Re: Pension Fund Investments and National Security Policy

Dear Secretary Snow:

The Pennsylvania State Employees' Retirement System (SERS) is one of the largest public pension systems in the U.S., with over $25 billion in assets. In order to continue the investment of such funds in a prudent manner in satisfaction of its fiduciary duty, SERS' Board is seeking the expert guidance and assistance of the U.S. Department of the Treasury and other federal agencies to assist us in ensuring that we are not investing SERS' assets in companies whose operations conflict with the federal government's goals in the fight against international terrorism.

Your assistance is particularly important to SERS because of the fact that the Office of Foreign Assets Control (OFAC) of the U.S. Department of the Treasury administers and enforces economic and trade sanctions, based on U.S. foreign policy and national security goals, against targeted foreign countries, terrorists, international narcotics traffickers, and those engaged in activities related to the proliferation of weapons of mass destruction. OFAC's ability to collect and analyze non-public, classified information on terrorism funding sources places it in a unique position to collaborate with other federal agencies and to assist investors in the identification of any publicly traded company whose securities should not be purchased because of its or its affiliates' dealings with countries that have been designated as operating in states the U.S. State Department identifies as state sponsors of terrorism.

Assessing Investment Risk

Because of the broad scope of national security issues implicated with evaluating classified non-public information and the analysis involved in making these important decisions, SERS has also sent correspondence to Chairman William Donaldson at the Securities and Exchange Commission (SEC) and to Secretary Tom Ridge at the Department of Homeland Security (DHS) seeking their agencies' advice and assistance as well. We specifically requested that the SEC provide information that would enable investors to identify companies whose securities involve investment risk arising because of its or its affiliates' dealings with countries that have been designated as operating in states the State Department identifies as state sponsors of terrorism.

While SERS is still awaiting a response from DHS, the SEC responded to us that the review staff of the Division of Corporate Finance would make every effort to ensure that the documents companies file with the SEC include full disclosure of all material information regarding terrorism-related and other global risk-related issues. We are encouraged by the fact that the SEC's newly established Office of Global Security Risk will be overseeing this initiative and pleased by the scope of its mandate to require additional disclosure of this type of investment risk. Indeed, consistent with its past practices, SERS' external investment managers will continue to monitor, evaluate and incorporate all publicly available information, including these newly required SEC mandated disclosures, in evaluating investment risks and making investment decisions on SERS' behalf.

It is important to note that SERS is not seeking your assistance in evaluating these types of investment risks. The fact is that SERS has had a superior investment program. SERS' long-term investment performance (over the past 10 years, SERS returned 10.4% on an annualized basis, placing SERS in the first quartile for investment returns among its peers) demonstrates that SERS is quite capable of identifying investment risks.

Assessing National Security Risks

Unfortunately, however, the Office of Global Security Risk appears to be unable to assist us in addressing a companion issue of equal, if not greater, importance: whether these companies, through their business activities in terrorist-sponsoring states, are in fact compromising U.S. national security or undermining US foreign policy goals. State pension funds and their investors do not have the expertise or information to make that kind of evaluation. Only the federal government can determine whether or not investments in such companies may be helping to finance activities that are contrary to our nation's interests. The complexity of national security involves, of course, issues of national defense, international relations, politics, and economic policy. A thorough assessment of these issues is not possible without access to classified information.

We know you are dealing with a myriad of issues related to our nation's security, but this matter is a pressing issue for our fund and the numerous pension funds throughout the country. Its importance has been highlighted recently in a widely publicized report entitled *The Terrorism Investments of the 50 States*, dated August 12, 2004, issued by an entity that identifies itself as The Center for Security Policy (CSP). This report stated that its analysis proves "empirically that this nation's largest and most prominent public pension systems tend to be heavily invested in global publicly traded companies that have business activities in terrorist-sponsoring states." The report implies that public pension funds are cavalierly supporting terrorists' activities through their investment holdings and in fact accuses the funds included in the report of "unconscionable behavior." The CSP report was extensively quoted in the national press, including the *Wall Street Journal*, leading to sensationalistic stories best illustrated by FOX News' provocative headline "*Pension Money Flowing to Rogue States.*"

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SERS is troubled that the facts cited in the report, as they relate to SERS' investments, appear to be inaccurate and incomplete. In addition, there is also reason to be skeptical of the validity of the report since Conflict Securities Advisory Group, which shares a Washington address with CSP, compiled CSP's analysis. CSAG is a commercial business that has been aggressively marketing a commercial product ostensibly designed to identify companies doing business in so-called terrorist countries. Only by purchasing the CSAG service could SERS identify the companies CSP would have SERS divest.

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If there are publicly traded companies whose activities are deemed by the federal government to compromise national security, it is imperative that the federal government provide that information to public pension funds. We ask you to work with other appropriate federal agencies to determine whether there are companies in which we should not invest for national security reasons and, if so, to provide a list of those companies to the investing public. We would be delighted to have the opportunity to meet with you at your convenience to discuss this issue further. Thank you for your attention to this matter.

Please help us fight terrorism together. We look forward to your reply.

Sincerely,

Nicholas J. Maiale
Chairman

June 3, 2005

E. Anthony Wayne, Interim Under Secretary
for Economic, Business and
Agricultural Affairs
U.S. Department of State
2201 C Street, NW
Washington, D.C. 20520

Stuart A. Levy, Under Secretary
Office of Terrorism and
Financial Intelligence
U.S. Department of the Treasury
1500 Pennsylvania Ave., NW
Washington, D.C. 20220

Peter Lichtenbaum, Acting Under Secretary
for Industry and Security and
Assistant Secretary for
Export Administration
Bureau of Industry Security
U.S. Department of Commerce
14th Street and Constitution Ave, NW
Washington, D.C. 20230

Alan L. Beller, Director
Division of Corporate Finance
U.S. Securities and Exchange
Commission
450 Fifth Street
Washington, D.C. 20549

Dear Gentlemen:

In the interests of public pension funds in the United States, and on behalf of those listed below, we are writing to request your assistance in identifying any publicly traded companies that are of concern to the United States government for doing business with, or having business ties to, entities that support terrorism or threaten U.S. humanitarian goals. As large institutional investors, we have investments in nearly every major public corporation and global financial marketplace. We need your assistance in identifying those corporations that are supporting terrorism so that we may ensure that we are not inadvertently acting in conflict with the foreign policy and humanitarian goals of the United States, thereby subjecting our members to excessive investment risk. Some of us have made this request previously and we reiterate it here, as we continue to face increasingly complex investment decisions.

The situation in Sudan is illustrative of the current landscape. Sudan is not only a federally designated terrorist sponsoring country, but is also embroiled in domestic conflicts in which the Sudanese government has engaged in activities that the U.S. government has identified as "genocide." In recent months, it has been suggested that companies that do business in Sudan may thereby be furthering or condoning the egregious human rights violations currently occurring in that country. Federal law imposes a broad trade embargo on Sudan, but not all business is prohibited. In addition, several state legislatures are considering measures that, in various ways, restrict investment in companies that do business or have financial ties with Sudan. We need adequate information to determine whether companies in which our public pension funds are invested are doing business in Sudan so that we, as fiduciaries, can make informed investment decisions.

It is our understanding that private entities have attempted to identify companies doing business in terrorist sponsoring countries, including Sudan. We believe, however, that the U.S. government is the only credible and centralized authority to identify, monitor, and report domestic and international companies that are operating in such countries and thereby may be acting contrary to U.S. foreign policy and humanitarian objectives.

Existing laws require your agencies to identify, monitor and sanction companies with business or financial ties to terrorist sponsoring countries, including Sudan. For example, in the case of the Securities and Exchange Commission, Congress has specifically mandated that it establish a process to identify companies operating in terrorist sponsoring countries and ensure that their activities and operations are disclosed to investors.

At this time, no comprehensive list or report of such companies has been created. Creation of such a list is a necessary first step in identifying companies whose activities may be contrary to U.S. foreign policy and humanitarian interests. Accordingly, we respectfully request that your agency, working in conjunction with other appropriate federal agencies and departments, publicly disclose the identity of companies that, by virtue of their business or business ties in terrorist sponsoring countries, are acting contrary to U.S. foreign policy and humanitarian interests, and that you report other information on such companies that will enhance investors' capability to make prudent investment decisions.

This is a matter of extreme importance to the Trustees of the undersigned pension funds. We hope that you will consider this matter with the same level of import that we have.

Thank you for your consideration.

Gail Stone
Executive Director
Arkansas Public Employees Retirement System

David Malone
Executive Director
Arkansas Teacher Retirement System

Fred Buenrostro
Chief Executive Officer
California Public Employees' Retirement System

Jack Ehnes
Chief Executive Officer
California State Teachers' Retirement System

Meredith Williams
Executive Director
Colorado Public Employees' Retirement Association

Ruth Ryerson
Chief Executive Officer
Fire and Police Pension Association of Colorado

Howard J. Rifkin, Deputy Treasurer
State of Connecticut

Darlene Perez
Administrator
Connecticut Teachers' Retirement Board

David Shimabukuro
Administrator
Hawaii State Employees' Retirement System

Donna Mueller
Chief Executive Officer
Iowa Public Employees' Retirement System

Alan H. Winkle
Executive Director
Public Employee Retirement System of Idaho

Louis Kosiba
Executive Director
Illinois Municipal Retirement Fund

Kevin Huber
Chief Financial Officer
Chicago Teachers' Pension Fund

Edward M. Smith, Chairman
Illinois State Board of Investment

Jon Bauman
Executive Director
Illinois Teachers' Retirement System

Robert V. Knox
Executive Secretary
State Employees' Retirement System of Illinois

James M. Hacking
Executive Director
State Universities Retirement System of Illinois

Robert D. Newland
Interim Executive Director
Indiana State Teachers' Retirement Fund

Gary Harbin
Executive Secretary
Kentucky Teachers' Retirement System

William P. Hanes, Esq.
Executive Director
Kentucky Retirement Systems

Robert L. Borden, CFA
Executive Director
Louisiana State Employees' Retirement System

Robert L. Rust
Executive Director
Municipal Employees' Retirement System of Louisiana

Bonita "Bonnie" Brown, CPA
Executive Director
Teachers' Retirement System of Louisiana

Thomas Lee
Executive Director/Secretary to the Board
State Retirement and Pension System of Maryland

Lorrie Tingle, CFA
Chief Investment Officer
Public Employees' Retirement System of Mississippi

Gary Findlay
Executive Director
Missouri State Employees' Retirement System

William R. Schwartz
Executive Secretary
Missouri Local Government Employees Retirement System

M. Steve Yoakum
Executive Director
Public School Retirement System of Missouri

Terry Slattery
Executive Director
Public Employees Retirement Association of New Mexico

Frederick. J. Beaver
Director, Division of Pensions and Benefits
State of New Jersey

Stephen A McGuire
Pension Fund Manager
Employees' Retirement System of Jersey City

Alan G. Hevesi
Comptroller
New York State Common Retirement Fund

George M. Philip
Executive Director and CIO
New York State Teachers' Retirement System

Damon Asbury
Executive Director
State Teachers Retirement System of Ohio

Bill Estabrook
Executive Director
Ohio Police & Fire Pension Fund

Laurie Fiori Hacking
Executive Director
Ohio Public Employees Retirement System

James R. Winfree
Executive Director
School Employees Retirement System of Ohio

Richard A. Curtis
Executive Director
Ohio Highway Patrol Retirement System

Tom Spencer
Executive Director
Oklahoma Public Employees Retirement System

Peggy G. Boykin, CPA
Executive Director
South Carolina Retirement Systems

Ed Hennessee
Director
Tennessee Consolidated Retirement System

Ronnie Jung
Executive Director
Teacher Retirement System of Texas

Gene Glass
Director
Texas County & District Retirement System

Ann S. Fuelberg
Executive Director
Employees Retirement System of Texas

Gary Anderson
Executive Director
Texas Municipal Retirement System

Robert Newman
Executive Director
Utah Retirement Systems

Sandra J. Matheson
Director
Washington State Department of Retirement Systems

Eric Stanchfield
Secretary
Wisconsin Department of Employee Trust Funds

David Mills
Executive Director
State of Wisconsin Investment Board

Thomas Mann
Director
Wyoming Retirement System

cc: Condoleezza Rice
Secretary of State
U.S. Department of State

John W. Snow, Secretary
U.S. Department of the Treasury

Carlos M. Gutierrez
Secretary of Commerce
Office of the Secretary

William H. Donaldson, Chairman
U.S. Securities and Exchange Commission

Cecelia D. Blye, Director
Office of Global Security Risk
U.S. Securities and Exchange Commission

Charles Fishkin, Director
Office of Risk Assessment
U.S. Securities and Exchange Commission

Robert W. Werner, Director
Office of Foreign Assets Control

The Voice for Public Pensions

January 10, 2005

Ms. Cecelia D. Blye
Director
Office of Global Security Risk
U.S. Securities and Exchange Commission (SEC)
450 Fifth Street, NW
Washington, DC 20549-0609

Dear Ms. Blye:

Thank you for taking the time to meet with representatives of our organizations on December 13, 2004 to discuss the activities of the Office of Global Security Risk ("OGSR"). We appreciate your willingness to share your plans with us and for providing us the opportunity to offer our thoughts on what may be most helpful to public plans and other institutional investors.

First and foremost, we were pleased to learn that your office is sharing information and coordinating with other appropriate federal agencies—such as the Departments of Homeland Security, Treasury and State—to better identify company activities that may pose national security risks. As we have stated, the federal government is the only credible centralized source with the capability of understanding the national security implications of company operations and directing appropriate prohibitions and sanctions against these companies.

Congress created OGSR not only to ensure the sharing of relevant information throughout the federal government, but also to be certain that appropriate information is provided to investors. Congress explicitly tasked OGSR with ensuring that all companies sold on U.S. exchanges disclose operations in State Department-designated terrorist-sponsoring states in order to identify risks to corporate share value and reputation stemming from business interests in these higher-risk countries. At our meeting, OGSR explained that it will comply with this Congressional mandate by requiring companies to disclose material operations in countries listed by the federal government as terrorist-sponsoring states. OGSR stated that it will be reviewing, and offering comments on, information provided to the SEC in public company filings, and that OGSR's recommendation to investors is that they rely on existing annual and quarterly 10-K and 10-Q filings as well as the published SEC comment letters as sources of information for purposes of analyzing these types of risks.

While we are appreciative of the added federal coordination and review of company filings by OGSR, we believe additional steps should be taken to make information more easily attainable by investors. Per your suggestion, we wish to reiterate the recommendations outlined at our meeting:

National Association of State Auditors, Comptrollers and Treasurers ▪ www.nasact.org
National Association of State Retirement Administrators ▪ www.nasra.org
National Association of State Treasurers ▪ www.nast.org
National Conference on Public Employee Retirement Systems ▪ www.ncpers.org
National Conference of State Legislatures ▪ www.ncsl.org
National Council on Teacher Retirement ▪ www.nctr.org

- Mandate readily accessible disclosures via a unique filing type or a unique header in 10-K or 10-Q filings. While companies will be required to disclose the existence of any material activities in terrorist-sponsoring countries in the annual and quarterly 10-K and 10-Q filings, OGSR noted that the SEC's current rules do not mandate that disclosure be provided in a specific place or under a special header in the filings.

- Provide a searchable, publicly available database—predicated on the coordinated work of the SEC and other federal departments/agencies involved with homeland security issues—of public companies with material business or operations in countries classified as supporting terrorism or subject to sanctions. We believe a federal database is most appropriate as fee-based lists provided by private organizations can have a high degree of subjectivity and may not include credible or authoritative information sanctioned by the federal government. They are also not without significant transaction costs and investment implications. Risks to corporate share value and reputation stemming from business interests in higher-risk countries cannot be properly assessed unless the information is credible, transparent and readily available.

We appreciate having had the opportunity to meet with you to discuss OGSR's initiatives and to begin what we hope will be an ongoing important dialogue. We are very hopeful that the work of your office will ultimately result in information being available to investors that is both useful and easily accessible. We look forward to continuing discussions on this important topic and hope that you will look to our organizations as a valuable resource.

Should you have any questions, or need additional information, we urge you to contact our representatives in Washington, DC:

Chris Allen, National Association of State Treasurers, (202) 624-8595, callen@nast.org
Cornelia Chebinou, National Association of State Auditors, Comptrollers and Treasurers, (202) 624-5451, cchebinou@nasact.org
Jeannine Markoe Raymond, National Association of State Retirement Administrators, (202) 624-1417, jeannine@nasra.org
Gerri Madrid-Davis, National Conference of State Legislatures, (202) 624-8670, gerri.madrid@ncsl.org
Cynthia Moore, National Council on Teacher Retirement, (703) 243-1667, cmoore@nctr.org
Fred Nesbitt and Hank Kim, National Conference on Public Employee Retirement Systems, (202) 624-1456, fred@ncpers.org, hank@ncpers.org

cc:
Alan L. Beller, Director, Division of Corporation Finance

The Voice for Public Pensions

August 30, 2004

Frank J. Gaffney, Jr., President
Center for Security Policy
1920 L Street, N.W.
Suite 210
Washington, DC 20036

Dear Mr. Gaffney:

On behalf of the National Association of State Retirement Administrators (NASRA), the National Association of State Auditors, Comptrollers and Treasurers (NASACT), the National Conference on Public Employee Retirement Systems (NCPERS), the National Conference of State Legislatures and the National Council on Teacher Retirement (NCTR), we are writing to express our grave concerns with your recent report entitled "Terrorism Investments of the 50 States." The faulty premise and inflammatory title of the report and the data upon which it was based present a distorted and misleading picture of states and their pension funds. Those entities continue to do everything within their power to ensure their investments are not compromising national security and would not be assisted in their efforts by the information presented or data used in the report.

Indeed, many of our organizations joined together to form the Economic Terrorism Commission shortly after September 11, 2001 to urge federal officials to provide states and their pension funds with information to guard against making investments with hidden terrorist links. We are very hopeful that the SEC's new Office of Global Security Risk, which Congress established this year, will provide state pension funds, and all U.S. investors for that matter, useful and appropriate information to ascertain whether companies are engaging in business that might support terrorism.

Merely highlighting whether a company or its subsidiary has a business tie to a country on the State Department's terrorism list—the information on which your report is based—does not disclose whether the company is in some way "aiding and abetting our enemies," as insinuated. Moreover, following your logic, you could just as easily level the very same inflammatory accusations against virtually any U.S. investor, whether institutional or individual. Public pension funds, whom you have gratuitously chosen to single out for criticism, in fact, invest in the same universe of stocks in which every other U.S. investor invests. There is nothing remarkable about the investments made by public pension funds which might credibly distinguish them from other U.S. investors.

The findings in your report additionally ignore the fact that companies may legally operate within these nations according to the policies established by the U.S. government, which permit various types of business in or with the countries on the list if it is believed they further foreign policy goals. Divesting every company highlighted in your report may simply result in punishing companies whose activities abroad the U.S. government supports or does not oppose, punishing companies whose activities abroad in no way compromise national security, and unnecessarily harming American companies, jobs, and shareholders.

Like all U.S. investors, we strongly support increased transparency and providing of relevant information to ensure U.S. investors are not unwittingly compromising national security. We continue to reach out to federal officials to this end and urge the creation of a federal list of prohibited investments based on U.S. national security concerns. Companies identified could then be de-listed from national exchanges, excluded from investment programs, and/or removed from benchmarking indexes.

Investors are neither equipped nor empowered to make national security decisions and in fact, some state efforts imposing sanctions have been found to be an unconstitutional infringement on the federal government's foreign policy responsibilities. The federal government is the only credible centralized source of this type of information with the capability to understand the national security implications. We will individually and collectively continue to urge the U.S. government to take the lead to identify and monitor companies that may threaten our national security.

Indeed, we suggest it may prove far easier and more productive in the long run for the federal government to direct appropriate prohibitions and sanctions against the companies engaging in activities determined to be contrary to national security interests, rather than against U.S. investors. This would avoid the imposition of unnecessary and potentially ineffectual punishment on U.S. investors, to say nothing of the U.S. employees who work for the companies in question in activities which are entirely unrelated to the subject behavior.

Sincerely,

Ed Hennessee

Ed Hennessee, President
National Association of
State Retirement Administrators

John J. Radford, President
National Association of
State Auditors, Comptrollers and Treasurers

Robert D. Podgorny

Robert D. Podgorny, President
National Conference on Public Employee
Retirement Systems

Delegate John Hurson, President
National Conference of State Legislatures

George M. Philip

George M. Philip
President,
National Council on Teacher Retirement

Cc: Cecelia Blye, Director, Office of Global Security Risk, U.S. Securities & Exchange Commission
The Honorable Frank R. Lautenberg, U.S. Senate

APPENDIX X

"SEC HALTS WATCH LIST TOOL"

Wall Street Journal
July 22, 2007

SEC Halts Watch List Tool

Wall Street Journal
By DEBORAH SOLOMON and NEIL KING
July 22, 2007; Page B14

Amid a barrage of criticism, the Securities and Exchange Commission is temporarily suspending an online list intended to spotlight companies doing business in countries tied to terrorism.

The online tool, unveiled in June, allows users to click on certain countries identified as state-sponsors of terrorism -- such as Iran -- and see a list of companies doing business there. It included information from public companies' annual reports, in which they disclosed business activities "in or relating to any of the five State Department-designated State Sponsors of Terrorism," the SEC said.

Several members of Congress, along with the banking industry and other international organizations objected, saying the list wasn't up to date and often included companies that didn't do business in those countries or had already severed ties. In some cases, critics said, the list included firms that simply mentioned the name of a country. That was the case with Immtech Pharmaceuticals, Inc., which disclosed in its annual report that it was conducting clinical trials for sleeping sickness medicine in Sudan.

"This list provided misleading information that could have damaged individual investors and needed to be brought down," said Todd Malan, president and CEO of the Organization for International Investment.

On Capitol Hill, among those who complained were Rep. Barney Frank, the Massachusetts Democrat who oversees the SEC as chair of the House Financial Services committee. Also critical was the committee's senior Republican, Alabama Rep. Spencer Bachus. In a letter to the SEC, Mr. Bachus said the list appeared to have been created through a "cursory word search."

In a written statement, SEC Chairman Christopher Cox said the agency was halting access to the list until it figures out a way to address the concerns raised about its accuracy. "We will work to improve the Web tool so that it meets the various concerns that have been expressed," Mr. Cox said. The SEC also defended the list, saying it allowed users to click on the company's disclosure and read exactly what association the corporation had with those countries.

"All of the disclosures were linked directly to the full text of the company's annual report to insure proper context," Mr. Cox said.

After its launch, the SEC's list raised concerns not only among companies and lawmakers, but also within other parts of the U.S. government-such as the State Department and the Treasury-mainly because it was so simple and unrefined. "It was basically a word-search list," said one U.S. official. "There was nothing the least bit sophisticated about it."

U.S. officials say they have been under pressure for months from Congress and state legislatures to develop an official list of publicly traded companies active in countries listed as sponsors of terrorism. Such a list would aid an effort that has caught fire in states such as Florida, California and Ohio to mandate that public pension funds divest from companies active in countries such as Iran, Sudan and Syria.

The administration opposes the groundswell of divestment efforts. Deputy Treasury Secretary Robert Kimmitt said in a speech in May that such legislation threatened to complicate international diplomatic efforts underway to isolate Iran.

APPENDIX XI

FEDERAL LEGISLATION

H. R. 2347
H. R. 180

110TH CONGRESS
1ST SESSION

H. R. 2347

IN THE SENATE OF THE UNITED STATES

AUGUST 1, 2007

Received

AUGUST 3, 2007

Read twice and referred to the Committee on Banking, Housing, and Urban Affairs

AN ACT

To authorize State and local governments to direct divestiture from, and prevent investment in, companies with investments of $20,000,000 or more in Iran's energy sector, companies that sell arms to the Government of Iran, and financial institutions that extend $20,000,000 or more in credit to the Government of Iran for 45 days or more, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Iran Sanctions Enabling Act of 2007".

SEC. 2. FINDINGS.

The Congress finds as follows:

(1) The Convention on the Prevention and Punishment of the Crime of Genocide, completed at Paris, December 9, 1948 (commonly referred to as the "Genocide Convention") defines genocide as, among other things, the act of killing members of a national, ethnic, racial, or religious group with the intent to destroy, in whole or in part, the targeted group. In addition, the Genocide Convention also prohibits conspiracy to commit genocide, as well as "direct and public incitement to commit genocide".

(2) 133 member states of the United Nations have ratified the Genocide Convention and thereby pledged to prosecute individuals who violate the Genocide Convention's prohibition on incitement to commit genocide, as well as those individuals who commit genocide directly.

(3) On October 27, 2005, at the World Without Zionism Conference in Tehran, Iran, the President

of Iran, Mahmoud Ahmadinejad, called for Israel to be ‘‘wiped off the map,’’ described Israel as ‘‘a disgraceful blot [on] the face of the Islamic world,’’ and declared that ‘‘[a]nybody who recognizes Israel will burn in the fire of the Islamic nation's fury.’’ President Ahmadinejad has subsequently made similar types of comments, and the Government of Iran has displayed inflammatory symbols that express similar intent.

(4) On December 23, 2006, the United Nations Security Council unanimously approved Resolution 1737, which bans the supply of nuclear technology and equipment to Iran and freezes the assets of certain organizations and individuals involved in Iran's nuclear program, until Iran suspends its enrichment of uranium, as verified by the International Atomic Energy Agency.

(5) Following Iran's failure to comply with Resolution 1737, on March 24, 2007, the United Nations Security Council unanimously approved Resolution 1747, to tighten sanctions on Iran, imposing a ban on arms sales and expanding the freeze on assets, in response to the country's uranium-enrichment activities.

(6) There are now signs of domestic discontent within Iran, and targeted financial and economic measures could produce further political pressure within Iran. According to the Economist Intelligence Unit, the nuclear crisis ''is imposing a heavy opportunity cost on Iran's economic development, slowing down investment in the oil, gas, and petrochemical sectors, as well as in critical infrastructure projects, including electricity''.

(7) Targeted financial measures represent one of the strongest non-military tools available to convince Tehran that it can no longer afford to engage in dangerous, destabilizing activities such as its nuclear weapons program and its support for terrorism.

(8) Foreign persons that have invested in Iran's energy sector, despite Iran's support of international terrorism and its nuclear program, have provided additional financial means for Iran's activities in these areas, and many United States persons have unknowingly invested in those same foreign persons.

(9) There is an increasing interest by States, local governments, educational institutions, and private institutions to seek to disassociate themselves from companies that directly or indirectly support

the Government of Iran's efforts to achieve a nuclear weapons capability.

(10) Policy makers and fund managers may find moral, prudential, or reputational reasons to divest from companies that accept the business risk of operating in countries that are subject to international economic sanctions or that have business relationships with countries, governments, or entities with which any United States company would be prohibited from dealing because of economic sanctions imposed by the United States.

SEC. 3. TRANSPARENCY IN CAPITAL MARKETS.

(a) LIST OF PERSONS INVESTING IN IRAN ENERGY SECTOR OR SELLING ARMS TO THE GOVERNMENT OF IRAN.—

(1) PUBLICATION OF LIST.—Not later than 6 months after the date of the enactment of this Act and every 6 months thereafter, the President or a designee of the President shall, using only publicly available (including proprietary) information, ensure publication in the Federal Register of a list of each person, whether within or outside of the United States, that, as of the date of the publication, has an investment of more than $20,000,000 in the energy sector in Iran, sells arms to the Government of

Iran, or is a financial institution that extends $20,000,000 or more in credit to the Government of Iran for 45 days or more. To the extent practicable, the list shall include a description of the investment made by each such person, including the dollar value, intended purpose, and status of the investment, as of the date of the publication.

(2) PRIOR NOTICE TO PERSONS.—The President or a designee of the President shall, at least 30 days before the list is published under paragraph (1), notify each person that the President or the designee, as the case may be, intends to include on the list.

(3) DELAY IN INCLUDING PERSONS ON THE LIST.—After notifying a person under paragraph (2), the President or a designee of the President may delay including that person on the list for up to 60 days if the President or the designee determines and certifies to the Congress that the person has taken specific and effective actions to terminate the involvement of the person in the activities that resulted in the notification under paragraph (2).

(4) REMOVAL OF PERSONS FROM THE LIST.—The President or a designee of the President may remove a person from the list before the next publi-

cation of the list under paragraph (1) if the President or the designee determines that the person does not have an investment of more than $20,000,000 in the energy sector in Iran, does not sell arms to the Government of Iran, and is not a financial institution that extends $20,000,000 or more in credit to the Government of Iran for 45 days or more.

(b) PUBLICATION ON WEBSITE.—The President or a designee of the President shall ensure that the list is published on an appropriate government website, updating the list as necessary to take into account any person removed from the list under subsection (a)(4).

(c) DEFINITION.—In this section, the term ''investment'' has the meaning given that term in section 14(9) of the Iran Sanctions Act (50 U.S.C. 1701 App.).

SEC. 4. AUTHORITY OF STATE AND LOCAL GOVERNMENTS TO DIVEST FROM CERTAIN COMPANIES INVESTED IN IRAN'S ENERGY SECTOR.

(a) STATEMENT OF POLICY.—It is the policy of the United States to support the decision of State governments, local governments, and educational institutions to divest from, and to prohibit the investment of assets they control in, persons that have investments of more than $20,000,000 in Iran's energy sector, persons that sell arms to the Government of Iran, and financial institutions that extend $20,000,000 or more in credit to the Government of Iran for 45 days or more.

(b) AUTHORITY TO DIVEST.—

(1) IN GENERAL.—Notwithstanding any other provision of law, a State or local government may adopt and enforce measures to divest the assets of the State or local government from, or prohibit investment of the assets of the State or local government in—

(A) persons that are included on the list most recently published under section 3(a)(1), as modified under section 3(a)(4);

(B) persons that sell arms to the Government of Iran;

(C) financial institutions that extend $20,000,000 or more in credit to the Government of Iran for 45 days or more; and

(D) persons that are included on any list of entities with investments in Iran, entities doing business in Iran, or entities doing business with the Government of Iran, which is issued pursuant to a law that—

(i) authorizes a State or local government to divest from, or prohibits a State or local government from investing assets in, the persons; and

(ii) is enacted by a State or local government on or before the first publication of a list under section 3.

(2) DEFINITIONS.—In this subsection:

(A) INVESTMENT.—The ''investment'' of assets includes—

(i) a commitment or contribution of assets; and

(ii) a loan or other extension of credit of assets.

(B) ASSETS.—The term ''assets'' refers to public monies and includes any pension, retirement, annuity, or endowment fund, or similar instrument, that is controlled, directly or indirectly, by a State or local government.

(c) PREEMPTION.—A measure of a State or local government that is authorized by subsection (b) is not preempted by any Federal law or regulation.

SEC. 5. SAFE HARBOR FOR CHANGES OF INVESTMENT POLICIES BY MUTUAL FUNDS.

Section 13 of the Investment Company Act of 1940 (15 U.S.C. 80a–13) is amended by adding at the end the following new subsection:

"(c) SAFE HARBOR FOR CHANGES IN INVESTMENT POLICIES.—Notwithstanding any other provision of Federal or State law, no person may bring any civil, criminal, or administrative action against any registered investment company or person providing services to such registered investment company (including its investment adviser), or any employee, officer, or director thereof, based solely upon the investment company divesting from, or avoiding investing in, securities issued by companies that are included on the most recent list published under section 3(a)(1) of the Iran Sanctions Enabling Act of 2007, as modified under section 3(b) of that Act. For purposes of this subsection the term 'person' shall include the Federal government, and any State or political subdivision of a State.".

SEC. 6. SAFE HARBOR FOR CHANGES OF INVESTMENT POLICIES BY EMPLOYEE BENEFIT PLANS.

Section 502 of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1132) is amended by adding at the end the following new subsection:

"(n) No person shall be treated as breaching any of the responsibilities, obligations, or duties imposed upon fiduciaries by this title, and no action may be brought under this section against any person, for divesting plan assets from, or avoiding investing plan assets in, persons that are included on the most recent list published under section 3(a)(1) of the Iran Sanctions Enabling Act, as modified under section 3(a)(4) of such Act.''.

SEC. 7. RULE OF INTERPRETATION.

Nothing in this Act shall be interpreted to limit the authority of any person to divest, or avoid investment in, any asset, or to adopt or enforce any measure to do so.

SEC. 8. DEFINITIONS.

In this Act:

(1) IRAN.—the term ''Iran'' includes any agency or instrumentality of Iran.

(2) ENERGY SECTOR.—The term ''energy sector'' refers to activities to develop petroleum or natural gas resources, or nuclear power.

(3) PERSON.—The term ''person'' means—

(A) a natural person as well as a corporation, business association, partnership, society, trust, any other nongovernmental entity, organization, or group;

(B) any governmental entity or instrumentality of a government, including a multilateral development institution (as defined in section 1701(c)(3) of the International Financial Institutions Act); and

(C) any successor, subunit, or subsidiary of any entity described in subparagraph (A) or (B).

(4) STATE.—The term "State" includes the District of Columbia, the Commonwealth of Puerto Rico, the United States Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands.

(5) STATE OR LOCAL GOVERNMENT.—

(A) IN GENERAL.—The term "State or local government" includes—

(i) any State and any agency or instrumentality thereof;

(ii) any local government within a State, and any agency or instrumentality thereof;

(iii) any other governmental instrumentality; and

(iv) any public institution of higher education.

(B) PUBLIC INSTITUTION OF HIGHER EDUCATION.—The term "public institution of higher education" means a public institution of higher education within the meaning of the Higher Education Act of 1965.

SEC. 9. SUNSET.

This Act shall terminate 30 days after the date on which the President has certified to Congress that—

(1) the Government of Iran has ceased providing support for acts of international terrorism and no longer satisfies the requirements for designation as a state-sponsor of terrorism for purposes of section 6(j) of the Export Administration Act of 1979, section 620A of the Foreign Assistance Act of 1961, section 40 of the Arms Export Control Act, or any other provision of law; and

(2) Iran has ceased the pursuit, acquisition, and development of nuclear, biological, and chemical weapons and ballistic missiles and ballistic missile launch technology.

Passed the House of Representatives July 31, 2007.

Attest: LORRAINE C. MILLER,

Clerk.

IIB

110TH CONGRESS
1ST SESSION

H. R. 180

IN THE SENATE OF THE UNITED STATES

AUGUST 1, 2007

Received

AUGUST 3, 2007

Read twice and referred to the Committee on Banking, Housing, and Urban Affairs

AN ACT

To require the identification of companies that conduct business operations in Sudan, to prohibit United States Government contracts with such companies, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the ''Darfur Accountability and Divestment Act''.

SEC. 2. FINDINGS.

The Congress finds as follows:

(1) In the 108th Congress, the House of Representatives adopted House Concurrent Resolution 467 on July 22, 2004, by a unanimous vote of 422–0, which—

(A) declares that the atrocities unfolding in the Darfur region of Sudan are genocide;

(B) declares that the Government of Sudan has violated the Convention on the Prevention and Punishment of the Crime of Genocide;

(C) urges the Administration to seriously consider multilateral intervention to stop genocide in Darfur should the United Nations Security Council fail to act; and

(D) calls on the Administration to impose targeted sanctions, including visa bans and the freezing of assets of the Sudanese National Congress and affiliated business and individuals directly responsible for the atrocities in Darfur.

(2) In the 109th Congress, the House of Representatives passed H.R. 3127, the Darfur Peace

and Accountability Act of 2006, on April 5, 2006, by a vote of 416–3, which—

(A) appeals to the international community, including the United Nations, the European Union, and the North Atlantic Treaty Organization (NATO), to immediately mobilize sufficient political, military, and financial resources to support and expand the African Union Mission in Sudan (AMIS);

(B) blocks assets and restricts travel of any individual the President determines is responsible for acts of genocide, war crimes, or crimes against humanity in the Darfur region of Sudan; and

(C) offers United States support for the International Criminal Court's efforts to prosecute those responsible for acts of genocide in Darfur.

(3) On September 9, 2004, former Secretary of State Colin Powell stated before the Committee on Foreign Relations of the Senate that genocide was being committed in the Darfur region of Sudan and that the Government of Sudan and the government-supported Janjaweed militias bear responsibility for the genocide.

(4) On September 21, 2004, President George W. Bush affirmed the Secretary of State's finding in an address before the United Nations General Assembly, stating that the world is witnessing terrible suffering and horrible crimes in the Darfur region of Sudan, crimes the Government of the United States has concluded are genocide.

(5) On May 29, 2007, President George W. Bush affirmed that the Government of Sudan is complicit in the bombing, murder, and rape of innocent civilians in Darfur and again declared that these actions rightfully constitute genocide.

(6) Although the Government of the United States currently bans United States companies from conducting business operations in Sudan, millions of Americans are inadvertently supporting the Government of Sudan by investing in foreign companies that conduct business operations in Sudan that disproportionately benefit the Sudanese regime in Khartoum.

(7) Several States and governmental entities, through legislation and other means, have expressed their desire, or are considering measures—

(A) to divest any equity in, or to refuse to provide debt capital to, certain companies that operate in Sudan;

(B) to disassociate themselves and the beneficiaries of their public pension and endowment funds from directly or indirectly supporting the Darfur genocide; and

(C) to prohibit themselves from entering into or renewing contracts for the procurement of goods or services with certain companies that have a direct investment in, or conduct business operations in, Sudan.

(8) California, Colorado, Florida, Hawaii, Indiana, Illinois, Iowa, Kansas, Maine, Minnesota, New Jersey, New York, Oregon, Rhode Island, Texas and Vermont have passed legislation to divest State funds from companies that conduct business operations in Sudan. Massachusetts, Michigan, North Carolina, Ohio, Pennsylvania, South Carolina, and Wisconsin are considering legislation to divest State funds from companies that conduct business operations in Sudan. Arkansas, Connecticut, Maryland, and Ohio have passed non-binding divestment legislation with respect to Sudan.

(9) Denver, Colorado, Los Angeles, California, Miami Beach, Florida, New Haven, Connecticut, Newton, Massachusetts, Philadelphia, Pennsylvania, Pittsburgh, Pennsylvania, Providence, Rhode Island, and San Francisco, California have passed legislation mandating divestment of city funds from companies that conduct business operations in Sudan.

(10) American University, Amherst College, Andover Newton Theological School, Boston University, Bowdoin College, Brandeis University, Brown University, Colby College, Columbia University, Connecticut College, Cornell University, Dartmouth College, Drew University, Duke University, Emory University, Hampton University, Harvard University, Hendrix College, Howard University, Lee University, Massachusetts Institute of Technology, Middlebury College, Nazareth College, Northwestern University, Oberlin College, Queen's University, Reconstructionist Rabbinical College, Regis University, Samford University, Seton Hall, Smith College, Stanford University, Swarthmore College, Trinity College, University of California, University of Colorado, University of Connecticut, University of Denver, University of Illinois, University of Maryland, University of Massachusetts, University of Min-

nesota, University of Pennsylvania, University of Rochester, University of Southern California, University of Vermont, University of Virginia, University of Washington, University of Wisconsin System, Vassar College, Wellesley College, Wheaton College, Williams College, and Yale University have divested their funds from or placed restrictions on investment of their funds in certain companies that conduct business operations in Sudan.

(11) Divestment has proven effective in similar situations, as in 1986, when State pension funds and university endowments were divested from companies that conducted business operations in South Africa, which was critical to ending apartheid in that country, and by 1994, when the first free elections in South Africa took place, a substantial number of States, counties, cities, universities, and colleges in the United States had adopted partial or total divestment policies.

(12) Economic pressure against the Government of Sudan has been effective in pushing Sudan to cooperate with the United States on counterterrorism efforts and in part in agreeing to negotiations with the Sudan People's Liberation

Army of South Sudan which resulted in the Comprehensive Peace Agreement of 2005.

(13) Congress acknowledges that divestment should be used sparingly and under extraordinary circumstances. This Act is based on unique circumstances, specifically, the reprehensible and abhorrent genocide occurring in Sudan.

(14) The business operations of companies in countries that perpetrate grave abuses of human rights, especially the uniquely monstrous crime of genocide, are of concern to many United States investors and citizens even when these operations represent a small fraction of a company's total business.

(15) State and city pension funds have routinely but unsuccessfully sought to acquire and utilize data from the Federal Government on companies for investment decisions.

(16) There is an increasing interest by States, local governments, educational institutions, and private institutions to seek to disassociate themselves from companies that support the Government of Sudan.

(17) Policy makers and fund managers may find moral, prudential, or reputational reasons to di-

vest from companies that accept the business risk of operating in countries that are subject to international economic sanctions or that have business relationships with countries, governments, or entities with which any United States company would be prohibited from dealing because of economic sanctions imposed by the United States.

(18) The world community has a moral obligation to work to do everything possible to stop the ongoing genocidal practices of the Government of Sudan in the Darfur region.

SEC. 3. TRANSPARENCY IN CAPITAL MARKETS.

(a) LIST OF PERSONS DIRECTLY INVESTING IN OR CONDUCTING BUSINESS OPERATIONS IN CERTAIN SUDANESE SECTORS.—

(1) PUBLICATION OF LIST.—Not later than 6 months after the date of the enactment of this Act and every 6 months thereafter, the Secretary of the Treasury, in consultation with the Secretary of Energy, the Secretary of State, the Securities and Exchange Commission, and the heads of other appropriate Federal departments and agencies, shall, using only publicly available (including proprietary) information, ensure publication in the Federal Register of a list of each person, whether within or out-

side of the United States, that, as of the date of the publication, has a direct investment in, or is conducting, business operations in Sudan's power production, mineral extraction, oil-related, or military equipment industries, subject to paragraph (2). To the extent practicable, the list shall include a description of the investment made by each such person, including the dollar value, intended purpose, and status of the investment, as of the date of the publication.

(2) EXCEPTIONS.—The Secretary of the Treasury shall exclude a person from the list if all of the business operations by reason of which the person would otherwise be included on the list—

(A) are conducted under contract directly and exclusively with the regional government of southern Sudan;

(B) are conducted under a license from the Office of Foreign Assets Control, or are expressly exempted under Federal law from the requirement to be conducted under such a license;

(C) consist of providing goods or services to marginalized populations of Sudan;

(D) consist of providing goods or services to an internationally recognized peacekeeping force or humanitarian organization;

(E) consist of providing goods or services that are used only to promote health or education;

(F) are conducted by a person that has also undertaken significant humanitarian efforts as described in section 10(14)(B);

(G) have been voluntarily suspended; or

(H) will cease within 1 year after the adoption of a formal plan to cease the operations, as determined by the Secretary.

(3) CONSIDERATION OF SCRUTINIZED BUSINESS OPERATIONS.—The Secretary of the Treasury should give serious consideration to including on the list any company that has a scrutinized business operation with respect to Sudan (within the meaning of section 10(4)).

(4) PRIOR NOTICE TO PERSONS.—The Secretary of the Treasury shall, at least 30 days before the list is published under paragraph (1), notify each person that the Secretary intends to include on the list.

(5) DELAY IN INCLUDING PERSONS ON THE LIST.—After notifying a person under paragraph (4), the Secretary of the Treasury may delay including that person on the list for up to 60 days if the Secretary determines and certifies to the Congress that the person has taken specific and effective actions to terminate the involvement of the person in the activities that resulted in the notification under paragraph (4).

(6) REMOVAL OF PERSONS FROM THE LIST.—The Secretary of the Treasury may remove a person from the list before the next publication of the list under paragraph (1) if the Secretary determines that the person no longer has a direct investment in or is no longer conducting business operations as described in paragraph (1).

(7) ADVANCE NOTICE TO CONGRESS.—Not later than 30 days (or, in the case of the first such list, 60 days) before the date by which paragraph (1) requires the list to be published, the Secretary of the Treasury shall submit to the Committees on Financial Services, on Education and Labor, and on Oversight and Government Reform of the House of Representatives and the Committees on Banking, Housing, and Urban Affairs, on Health, Education,

Labor, and Pensions, and on Homeland Security and Governmental Affairs of the Senate a copy of the list which the Secretary intends to publish under paragraph (1).

(b) PUBLICATION ON WEBSITE.—The Secretary of the Treasury shall ensure that the list is published on an appropriate, publicly accessible government website, updating the list as necessary to take into account any person removed from the list under subsection (a)(6).

(c) DEFINITION.—In this section, the term ''investment'' has the meaning given in section 4(b)(3).

SEC. 4. AUTHORITY OF STATE AND LOCAL GOVERNMENTS TO DIVEST FROM CERTAIN COMPANIES DIRECTLY INVESTED IN CERTAIN SUDANESE SECTORS.

(a) STATEMENT OF POLICY.—It is the policy of the United States to support the decision of any State or local government to divest from, and to prohibit the investment of assets controlled by the State or local government in, persons on—

(1) the list most recently published under section 3(a)(1), as modified under section 3(a)(6); or

(2) any list developed by the State or local government for the purpose of divestment from certain

persons described in subsection (b)(1)(B) of this section.

(b) AUTHORITY TO DIVEST.—

(1) IN GENERAL.—Notwithstanding any other provision of law, a State or local government may adopt and enforce measures to divest the assets of the State or local government from, or prohibit investment of the assets of the State or local government in—

(A) persons that are included on the list most recently published under section 3(a)(1) of this Act, as modified under section 3(a)(6) of this Act; or

(B) persons having a direct investment in, or carrying on a trade or business (within the meaning of section 162 of the Internal Revenue Code of 1986) in Sudan or with the Government of Sudan, if the measures require the State or local government, as the case may be, to the maximum extent practicable, to—

(i) provide written notice to each person to whom the measures are to be applied; and

(ii) not apply the measures to a person—

(I) before the end of the 90-day period beginning with the date written notice is provided to the person pursuant to clause (i); or

(II) if the person demonstrates to the State or local government, as the case may be, that the person is no longer involved in the activities by reason of which the measures would otherwise be applied to the person.

(2) APPLICABILITY.—This subsection applies to measures adopted by a State or local government before, on, or after the date of the enactment of this Act.

(3) DEFINITIONS.—In this subsection:

(A) INVESTMENT.—The ''investment'' of assets includes—

(i) a commitment or contribution of assets; and

(ii) a loan or other extension of credit of assets.

(B) ASSETS.—The term ''assets'' refers to public monies and includes any pension, retirement, annuity, or endowment fund, or similar instrument, that is controlled, directly or indirectly, by a State or local government.

(c) PREEMPTION.—A measure of a State or local government that is authorized by subsection (b) is not pre-empted by any Federal law or regulation.

SEC. 5. SENSE OF THE CONGRESS.

It is the sense of the Congress that a divestment measure authorized under section 4 or a measure authorized under section 9 to prohibit State or local contracts would not violate the United States Constitution because such a measure—

(1) is not pre-empted under the Supremacy Clause;

(2) is authorized by the Congress as an appropriate measure with regard to interstate or foreign commerce; and

(3) is authorized by the Congress as a measure that promotes the foreign policy of the United States.

SEC. 6. SAFE HARBOR FOR CHANGES OF INVESTMENT POLICIES BY ASSET MANAGERS.

Section 13 of the Investment Company Act of 1940 (15 U.S.C. 80a–13) is amended by adding at the end the following new subsection:

"(c) SAFE HARBOR FOR CHANGES IN INVESTMENT POLICIES.—Notwithstanding any other provision of Federal or State law, no person may bring any civil, criminal, or administrative action against any registered investment company or person providing services to such registered investment company (including its investment adviser), or any employee, officer, or director thereof, based solely upon the investment company divesting from, or avoiding investing in, securities issued by companies that are included on the list most recently published under section 3(a)(1) of the Darfur Accountability and Divestment Act, as modified under section 3(a)(6) of that Act. For purposes of this subsection the term 'person' shall include the Federal government, and any State or political subdivision of a State.".

SEC. 7. SAFE HARBOR FOR CHANGES OF INVESTMENT POLICIES BY EMPLOYEE BENEFIT PLANS.

Section 404 of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1104) is amended by adding at the end the following new subsection:

"(n) No person shall be treated as breaching any of the responsibilities, obligations, or duties imposed upon fiduciaries by this title for divesting plan assets from, or avoiding investing plan assets in, persons that are included on the list most recently published under section 3(a)(1) of the Darfur Accountability and Divestment Act, as modified under section 3(a)(6) of such Act. Any divestiture of plan assets from, or avoidance of investing plan assets in, persons that are included on such list shall be treated as in accordance with this title and the documents and instruments governing the plan.''.

SEC. 8. PROHIBITION ON UNITED STATES GOVERNMENT CONTRACTS.

(a) PROHIBITION.—Notwithstanding any other provision of law, the Government of the United States shall not enter into or renew a contract for the procurement of goods or services with persons that are included on the list most recently published under section 3(a)(1), as modified under section 3(a)(6).

(b) WAIVER AUTHORITY.—The President may waive the prohibition in subsection (a) on a case-by-case basis if the President determines and certifies in writing to the Congress that it is important to the national security interests of the United States to do so.

SEC. 9. AUTHORITY OF STATE AND LOCAL GOVERNMENTS TO PROHIBIT CONTRACTS.

(a) STATEMENT OF POLICY.—It is the policy of the United States to support the decision of any State or local government to prohibit the State or local government, as the case may be, from entering into or renewing a contract as described in subsection (b).

(b) AUTHORITY TO PROHIBIT CONTRACTS.—Notwithstanding any other provision of law, a State or local government may adopt and enforce measures to prohibit the State or local government, as the case may be, from entering into or renewing a contract for the procurement of goods or services with persons that are included on the list most recently published under section 3(a)(1), as modified under section 3(a)(6).

SEC. 10. DEFINITIONS.

For purposes of this Act:

(1) PERSON.—The term ''person'', except in paragraph (6), means—

(A) a natural person as well as a corporation, company, business association, partnership, society, trust, any other nongovernmental entity, organization, or group;

(B) any governmental entity or instrumentality of a government, including a multilateral development institution (as defined in section 1701(c)(3) of the International Financial Institutions Act); and

(C) any successor, subunit, or subsidiary of any entity described in subparagraph (A) or (B).

(2) STATE.—The term ‘‘State’’ includes the District of Columbia, the Commonwealth of Puerto Rico, the United States Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands.

(3) STATE OR LOCAL GOVERNMENT.—

(A) IN GENERAL.—The term ‘‘State or local government’’ includes—

(i) any State and any agency or instrumentality thereof;

(ii) any local government within a State, and any agency or instrumentality thereof;

(iii) any other governmental instrumentality; and

(iv) any public institution of higher education.

(B) PUBLIC INSTITUTION OF HIGHER EDUCATION.—The term ‘‘public institution of higher education’’ means a public institution of higher education within the meaning of the Higher Education Act of 1965.

(4) SCRUTINIZED BUSINESS OPERATION.—A company has a scrutinized business operation with respect to Sudan if—

(A)(i) the company has business operations that involve contracts with or provision of supplies or services to—

(I) the Government of Sudan;

(II) a company in which the Government of Sudan has any direct or indirect equity share;

(III) a consortium or project commissioned by the Government of Sudan; or

(IV) a company involved in a consortium or project commissioned by the Government of Sudan; and

(ii)(I)(aa) more than 10 percent of the revenues or assets of the company that are linked to Sudan involve oil-related activities or mineral extraction activities;

(bb) less than 75 percent of the revenues or assets of the company that are 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

(cc) the company has failed to take substantial action with respect to the business operations referred to in clause (i) of this subparagraph or as described in subparagraph (B) or (C) of paragraph (14); or

(II)(aa) more than 10 percent of the revenues or assets of the company that are linked to Sudan involve power production activities;

(bb) less than 75 percent of the power production activities of the company include projects whose intent is to provide power or electricity to the marginalized populations of Sudan; and

(cc) the company has failed to take substantial action with respect to the business operations referred to in clause (i) of this subparagraph or as described in subparagraph (B) or (C) of paragraph (14);

(B) the company supplies military equipment in Sudan, unless the company clearly shows that—

(i) the military equipment cannot be used to facilitate offensive military actions in Sudan; or

(ii) the company implements rigorous and verifiable safeguards to prevent use of the equipment by forces actively participating in armed conflict, including through—

(I) post-sale tracking of the equipment by the company;

(II) 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

(III) sale of the equipment solely to the regional government of southern Sudan or any internationally recognized peacekeeping force or humanitarian organization; or

(C) the Secretary of the Treasury has determined that the company has been complicit in the Darfur genocide.

(5) BUSINESS OPERATIONS.—The term ''business operations'' means engaging in commerce in

any form in Sudan, including by acquiring, developing, maintaining, owning, selling, possessing, leasing, or operating equipment, facilities, personnel, products, services, personal property, real property, or any other apparatus of business or commerce.

(6) COMPANY.—The term ''company'' means any natural person, legal person, sole proprietorship, organization, association, corporation, partnership, firm, joint venture, franchisor, franchisee, financial institution, utility, public franchise, trust, enterprise, limited partnership, limited liability partnership, limited liability company, or other business entity or association, including all wholly-owned subsidiaries, majority-owned subsidiaries, parent companies, or affiliates of such business entities or associations, that exists for profit-making purposes.

(7) COMPLICIT.—The term ''complicit'' means has taken actions in the preceding 20 months which have directly supported or promoted the genocidal campaign in Darfur, including preventing Darfur's victimized population from communicating with each other, encouraging Sudanese citizens to speak out against an internationally approved security force for Darfur, actively working to deny, cover up, or

alter evidence of human rights abuses in Darfur, or other similar actions.

(8) GOVERNMENT OF SUDAN.—The term ''Government of Sudan'' means the government in Khartoum, Sudan, which is led by the National Congress Party (formerly known as the National Islamic Front) or any successor government formed on or after October 13, 2006 (including the coalition National Unity Government agreed upon in the Comprehensive Peace Agreement for Sudan), and does not include the regional government of southern Sudan.

(9) MARGINALIZED POPULATIONS OF SUDAN.—The term ''marginalized populations of Sudan'' includes—

(A) the portion of the population in the Darfur region that has been victimized;

(B) the portion of the population of southern Sudan victimized by Sudan's North-South civil war;

(C) the Beja, Rashidiya, and other similarly affected groups of eastern Sudan;

(D) the Nubian and other similarly affected groups in Sudan's Abyei, Southern Blue Nile, and Nuba Mountain regions; and

(E) the Amri, Hamadab, Manasir, and other similarly affected groups of northern Sudan.

(10) MILITARY EQUIPMENT.—The term "military equipment" means—

(A) weapons, arms, military supplies, and equipment that readily may be used for military purposes, including radar systems or military-grade transport vehicles; or

(B) supplies or services sold or provided directly or indirectly to any force actively participating in armed conflict in Sudan.

(11) MINERAL EXTRACTION ACTIVITIES.—The term "mineral extraction activities" includes—

(A) exploring, extracting, processing, transporting, or wholesale selling or trading of elemental minerals or associated metal alloys or oxides (ore), including gold, copper, chromium, chromite, diamonds, iron, iron ore, silver, tungsten, uranium, and zinc, and

(B) facilitating any activity described in subparagraph (A), including by providing supplies or services in support of the activity.

(12) OIL-RELATED ACTIVITIES.—

(A) IN GENERAL.—Except as provided in subparagraph (B), the term ''oil-related activities'' includes—

(i) exporting, extracting, producing, refining, processing, exploring for, transporting, selling, or trading oil;

(ii) constructing, maintaining, or operating a pipeline, refinery, or other oilfield infrastructure; and

(iii) facilitating any activity described in clause (i) or (ii), including by providing supplies or services in support of the activity.

(B) SPECIAL RULES.—

(i) A company that is involved in the retail sale of gasoline or related consumer products in Sudan but is not involved in any other activity described in subparagraph (A) shall not be considered to be involved in an oil-related activity.

(ii) A company that is involved in leasing, or that owns, rights to an oil block in Sudan but is not involved in any other activity described in subparagraph (A) shall not be considered to be involved in an oil-related activity.

(13) POWER PRODUCTION ACTIVITIES.—The term ''power production activities'' means—

(A) any business operation that involves a project commissioned by the National Electricity Corporation of Sudan or other similar Government of Sudan entity whose purpose is to facilitate power generation and delivery, including establishing power-generating plants or hydroelectric dams, selling or installing components for the project, providing service contracts related to the installation or maintenance of the project; and

(B) facilitating an activity described in subparagraph (A), including by providing supplies or services in support of the activity.

(14) SUBSTANTIAL ACTION.—The term ''substantial action'' means—

(A) adopting, publicizing, and implementing a formal plan to cease scrutinized business operations within 1 year after the date of the enactment of this Act, and refraining from any new scrutinized business operations;

(B) undertaking significant humanitarian efforts—

(i) in conjunction with an international development or humanitarian organization, the regional government of southern Sudan, or a non-profit entity;

(ii) substantial in relationship to the size and scope of the business operations with respect to Sudan;

(iii) of benefit to 1 or more marginalized populations of Sudan; and

(iv) evaluated and certified by an independent third party to meet the requirements of clauses (i) through (iii); or

(C) materially improving conditions for the victimized population in Darfur.

SEC. 11. SENSE OF THE CONGRESS.

It is the sense of the Congress that the governments of all other countries should adopt measures, similar to those contained in this Act, to publicize the activities of all persons that, through their financial dealings, knowingly or unknowingly enable the Government of Sudan to continue to oppress and commit genocide against people in the Darfur region and other regions of Sudan, and to authorize divestment from, and the avoidance of further investment in, the persons.

SEC. 12. SUNSET.

This Act shall terminate 30 days after the date on which—

(1) the President has certified to Congress that—

(A) the Darfur genocide has been halted for at least 12 months; and

(B) the Government of Sudan has honored its commitments to—

(i) abide by United Nations Security Council Resolution 1706;

(ii) cease attacks on civilians;

(iii) demobilize and demilitarize the Janjaweed and associated militias;

(iv) grant free and unfettered access for delivery of humanitarian assistance; and

(v) allow for the safe and voluntary return of refugees and internally displaced persons; and

(2) the United States has revoked all sanctions against the Government of Sudan and the officials

of such government, including sanctions authorized by—

(A) the Sudan Peace Act (Public Law 107–245);

(B) the Comprehensive Peace in Sudan Act of 2004 (Public Law 108–497);

(C) the USA PATRIOT Improvement and Reauthorization Act of 2005 (Public Law 109–177);

(D) the Darfur Peace and Accountability Act of 2006 (Public Law 109–344); and

(E) any other Federal law or Executive order.

Passed the House of Representatives July 31, 2007.

Attest: LORRAINE C. MILLER,

Clerk.

APPENDIX XII

"GOVERNOR RENDELL HELPS BREAK GROUND ON WESTINGHOUSE NUCLEAR HEADQUARTERS"

News Release: August 14, 2007

PA PowerPort
August 2007

FOR IMMEDIATE RELEASE:
August 14, 2007

GOVERNOR RENDELL HELPS BREAK GROUND ON WESTINGHOUSE NUCLEAR HEADQUARTERS

$200 MILLION PROJECT IN BUTLER COUNTY WILL CREATE, RETAIN 3,174 JOBS

CRANBERRY WOODS, Butler County – Governor Edward G. Rendell had a shovel in his hand to help break ground today for a new Westinghouse Electric Company headquarters and technology center in Butler County, but he was thinking about special legislation he signed into law nearly a year ago that was designed to keep global companies like this one from moving out of Pennsylvania.

“Without the strategic development areas legislation I signed into law last November, Westinghouse might have relocated out of Pennsylvania,” Governor Rendell said. “This project serves as a clear example of how SDAs are already working to help companies not only stay in the commonwealth, but also to expand, encourage capital investment, and promote job creation and retention.

“Westinghouse’s commitment to create at least 931 new jobs over the next five years proves the company recognizes the quality of Pennsylvania’s workforce. Upon completion of this project, Westinghouse will have approximately 4,400 employees in western Pennsylvania. That’s great news for our economy, our business climate and – most importantly – our hardworking men and women.”

Strategic development areas legislation gives the Governor the power to create special zones that offer tax incentives to businesses dedicated to creating new jobs and investing their resources in the areas that become SDAs. Each SDA must have the full support and endorsement of the affected municipalities. Companies operating in SDAs must own or lease the property in question and create or maintain 500 jobs within three years or make a capital investment of at least $45 million.

Two Westinghouse properties in Butler and Westmoreland counties have received strategic development designation.

Westinghouse’s $200 million headquarters will be constructed in Cranberry Woods and consist of three wings totaling 800,000 square feet. It will serve as the Westinghouse headquarters and technology center for the worldwide hub of Westinghouse Electric Company, the global leader in commercial nuclear power.

Westinghouse President and CEO Steve Tritch said the company is pleased that Pennsylvania, under Governor Rendell’s leadership, was able to make Westinghouse competitive with other states that were also determined to be viable locations for the company.

“George Westinghouse first established our company’s roots in southwestern Pennsylvania in 1886 with the founding of The Westinghouse Electric Company – the name that we are privileged to carry to this day.” he said. “For many generations since then, Westinghouse has contributed to the economic and social health and vitality of this region and we are proud to continue the legacy of our founding father.”

Westinghouse’s $200 million expansion project was coordinated through the Governor’s Action

Team, which consists of economic development professionals who serve as a single point-of-contact for businesses considering locating or expanding in Pennsylvania.

The Community Development Corporation of Butler County and the Allegheny Conference on Community Development worked with Westinghouse and the Governor's Action Team to secure a $6 million funding offer to the company from DCED. The financial package consists of a $2.25 million Pennsylvania Industrial Development Authority loan, a $1.65 million Opportunity Grant, a $1.25 million Infrastructure Development Program grant and $860,000 in Customized Job Training funds.

The company is also eligible to apply for a $10 million loan through the Citizens Job Bank program, which offers low-interest loans to companies that commit to creating or expanding jobs in Pennsylvania.

In Butler County, there have been 13 Governor's Action Team projects successfully completed since January 2003. These projects total commitments for 2,504 new jobs created and 4,388 jobs to be retained. The commonwealth has offered more than $46.6 million in state assistance for these projects, which will leverage more than $242 million in additional investment.

Statewide since January 2003, 841 Governor's Action Team projects have been successfully completed. These projects total commitments for 91,708 new jobs created and 208,155 retained jobs. The commonwealth has offered more than $1.6 billion in state assistance for these projects, which will leverage more than $10 billion in additional investment.

Westinghouse, a group company of Toshiba Corporation, supplied the world's first pressurized water reactor in 1957 in Shippingport, PA. Today, Westinghouse technology is the basis for approximately half of the world's operating nuclear plants, including 60 percent of those in the United States. To learn more about the company, visit www.westinghousenuclear.com.

For information on the Governor's Action Team and other DCED programs, visit www.NewPA.com or call 1-866-466-3972.

APPENDIX XIII

PENNSYLVANIA
EMPLOYMENT IMPACT

Pennsylvania Employment Impact

Over 20% of the companies that may be targeted for divestment also do business in PA.
Many are major employers and provide jobs for thousands of Pennsylvanians statewide

Company	County/Region	Estimated Number of Employees
Siemens	Chester, Montgomery	10,000
General Electric	Erie, Mercer	5,500-7,300
Ingersoll-Rand	Bradford, Cumberland	1,500-6,000
Lockheed Martin	Bucks, Lackawanna	1,500-6,000
Kvaerner ASA / (PHL Shipyard)*	Philadelphia	800-6,000
Bayer	Allegheny, Lebanon	1,300-5,600
American Express	Philadelphia	1,000-5,300
Sony	Westmoreland	1,000-5,300
BAE Systems	York	1,000-5,000
Proctor & Gamble	Wyoming	1,000-5,000
Toshiba Corp. (Westinghouse)*	Allegheny, Indiana, PHL	4,400
Coca-Cola	Statewide	1,600-3,500
Volvo AB (Mack Trucks)*	Dauphin, Lancaster, Lehigh	1,600-3,300
Banco Santander (Sovereign)*	Statewide	950-2,200
SKF	Chester, Montgomery, York	600-1,200
Raytheon	Centre	500-1,100
Merck	Montgomery	500-1,000
Four Seasons Hotels	Philadelphia	500-1,000
UBS	Philadelphia	200-800
Synthes	Chester	350-750
Boeing	Statewide	650
ABB	Bucks	300-630
AON	Allegheny, Montgomery, PHL	250-600
ConocoPhillips	Delaware	250-500
AMR (American Airlines)	Statewide	400
Adolor	Chester	100-250
Cummins Power	Bucks, Dauphin	100-250
Alcatel-Lucent	Lehigh	40-100

	(Employees or Retail Products)	
3M	Honda Motor Co.	Samsung Electronics
Baker Hughes	Hydril Company	Sanguine Corp
Bristol-Myers Squibb	Hyundai Motor Co.	Sanyo Electric Co.
Canon Inc.	Imaging Diagnostic Systems	Schering-Plough Corp.
Carrier Access Corp.	Kia Motors	Seiko Corp.
Chevron Corporation	LG Electronics Inc.	Shimano Inc.
Cryolife, Inc.	L'Oreal	Starwood Hotels & Resorts
Daewoo Electronics	M&F Worldwide Corp.	Stryker Corp.
Dana Corp.	Marathon Oil (Pilot)	Suzuki Motor Corp.
Dell Inc.	Mazda Motor Corp.	Terex Corp.
Digene Corp.	Mitsubishi Motors Corp.	Tokheim Corp.
Dragon Pharmaceuticals Inc	NEC Corp.	Toyota Motor Corp.
Eastman Kodak Co.	Nissan Motor Co.	UBS
Emirates Telecommunications	Nokia Corp.	Unilever
Ericsson	Novartis AG	Volkswagen AG (VW)
Exxon Mobil Corp.	Pharmion Corp	Water Chef Inc.
Federal-Mogul Corp.	Philips Electronics	Waters Corporation
Fluor Corp.	Pirelli & Company	Xfone, Inc.
Global Concepts Ltd	Primus Telecommunications	X-Rite, Inc.
Halliburton Co.	Retractable Technologies	Yamaha Motor Co.
Hienergy Technologies, Inc.	Royal Dutch Shell	

Source: Employer information is from the PA Dept. of Labor & Industry
*Aker is the parent company of Kvaerner and PHL Shipyard.
*Represents Westinghouse and Toshiba PA employees. Toshiba owns Westinghouse.
*Represents Mack Trucks PA employees. Volvo AB owns Mack Trucks.
*Represents PA employees of Sovereign Bank. Banco Santander is Sovereign's controlling shareholder.

APPENDIX XIV

"SHOULD PUBLIC PLANS ENGAGE IN SOCIAL INVESTING?"

Center for Retirement Research at Boston College
August 2007, Number 7-12
by Alicia H. Munnell

CENTER FOR
RETIREMENT
RESEARCH
AT BOSTON COLLEGE

August 2007, Number 7-12

SHOULD PUBLIC PLANS ENGAGE IN SOCIAL INVESTING?

By Alicia H. Munnell*

Introduction

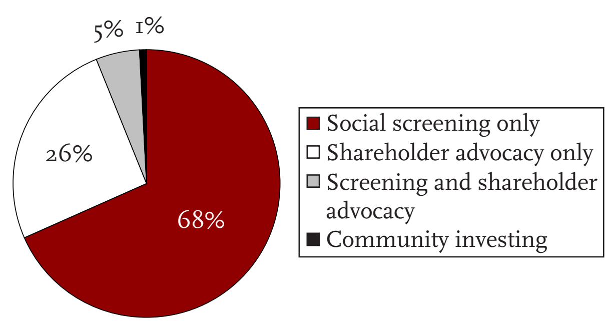
Social investing is a movement that advocates incorporating social and environmental considerations, as well as financial factors, when making investment decisions. The most recent incarnation of this movement is the initiative by state legislatures to force public pension funds to sell their holdings of companies doing business in Sudan. The effort to divest Sudan-linked stocks began in 2004 after the U.S. government characterized the killing and displacement in Darfur province as genocide.[1] Riding on the coattails of the success of the Sudan effort, state legislatures have now targeted Iran, with a goal of "terror-free" investing. The emotional appeal of such actions is powerful. Over 2 million civilians have been displaced and more than 200,000 slaughtered in Darfur since 2003.[2] And Iran refuses to back away from its pursuit of nuclear weapons.[3] But strong arguments also exist against using public pension plans to accomplish foreign policy goals.

This *brief* explores the current world of social investing, the recent efforts regarding the Sudan and Iran, the likely impact of social investing on the target firms, and the reasons why such activity may be inappropriate for public pension plans.

What Is Social Investing? How Much? Who's Doing It?

Social investing takes three primary forms: 1) screening (either excluding "bad" companies or including "good" companies); 2) shareholder advocacy; and 3) community investing. The Social Investment Forum (SIF), a trade group of social investors, reports that at the end of 2005, in terms of assets under management, screening is by far the most prevalent approach (see Figure 1). Significantly less is involved in shareholder advocacy, and community investing activity is tiny.

Figure 1. Social Investing in the United States by Type of Strategy, 2005



Source: Social Investment Forum (2006).

* Alicia H. Munnell is the Director of the Center for Retirement Research at Boston College (CRR) and the Peter F. Drucker Professor of Management Sciences at Boston College's Carroll School of Management. Jerilyn Libby served as the major research assistant on this project; Dan Muldoon also provided able assistance. John Langbein and Alan Marcus provided valuable comments.

Table 1. Assets in Socially Screened Portfolios, 1999-2005 (Billions)

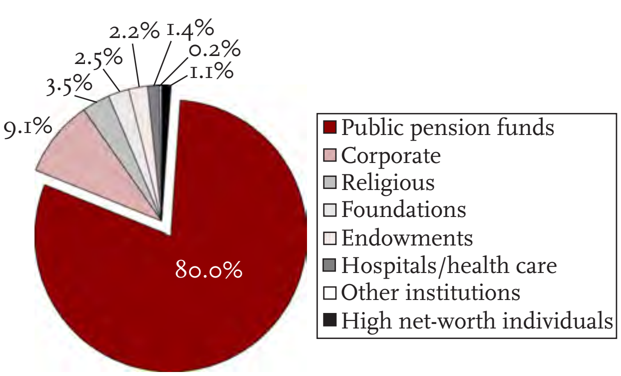
Year	Mutual funds	Separate accounts	Total
1995	$12	$150	$162
1997	96	433	529
1999	154	1,343	1,497
2001	140	1,870	2,010
2003	151	1,992	2,143
2005	179	1,506	1,685

Source: Center for Retirement Research at Boston College (2006).

The Social Investment Forum reports that as of the end of 2005, mutual funds with social screens held $179 billion and that socially screened "separate accounts," which are managed for individuals and institutional clients, held $1,506 billion (see Table 1). The SIF calculates that these totals amount to 9.4 percent of all public and private assets under management.

The bulk of the money in separate accounts (80 percent) is the assets of public pension funds (see Figure 2). And screening is pervasive among public funds. The SIF numbers suggest that, in 2005, $1.2 trillion of public pension fund assets were screened by some criteria. These screened assets accounted for 45 percent of total state and local pension holdings in that year.[4]

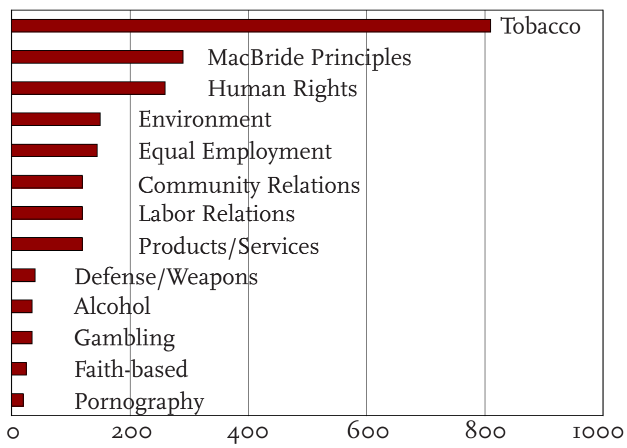
Figure 2. Socially Screened Investor Assets, 2005



Source: Social Investment Forum (2006).

The screens vary by the nature of the customer. As of 2005, by far the most popular approach for mutual funds was a negative screen for tobacco; alcohol came in second; gambling third.[5] But the pattern for institutional separate accounts, which is dominated by public plans, is quite different. For these accounts, the MacBride Principles (relating to fair hiring in Northern Ireland), Human Rights, the Environment, and Equal Employment Opportunity ranked among the top social concerns (see Figure 3).

Figure 3. Social Screening by Institutional Investors, 2005 (Billions)



Source: Social Investment Forum (2006).

Note that almost none of the screened money is held in private sector defined benefit pension funds.[6] These private plans are covered by the Employee Retirement Income Security Act (ERISA), and right from the beginning the Department of Labor has stringently enforced ERISA's duties of loyalty and prudence.[7] In 1980, the chief administrator of the Department of Labor's pension section published an influential article that warned that the exclusion of investment options would be very hard to defend under ERISA's prudence and loyalty tests.[8] And a 1994 Interpretive Bulletin reminded fiduciaries that they are prohibited from subordinating the interests of participants and beneficiaries ... to unrelated objectives."[9] Thus, ERISA fiduciary law has effectively constrained social investing in private sector defined benefit plans.[10] Social investing is a public pension fund phenomenon.

Recent Developments – Sudan and Now Iran

During 2005, and therefore not reflected in Figure 3, state legislatures in Arizona, Illinois, Louisiana, New Jersey, and Oregon passed legislation related to companies with operations in Sudan.[11] Since then some states have branched out to include Iran. And Missouri has taken the lead in initiating an entirely "terror-free" investment policy. American companies have been barred for some time from doing business in either Sudan or with states considered sponsors of terrorism according to the U.S. State Department (Cuba, Iran, North Korea, Sudan and Syria).[12] But in a world of global investing, U.S. investors can have a link to Sudan or "terror states" through foreign stock holdings. Such foreign holdings would be most affected by the recent state legislation.

Sudan

As of August 2007, eighteen states have passed laws regarding divestment of state pension and other funds from Sudan (see Figure 4).[13] Divesting is not easy, however. State and local pension funds tend to invest in global indices, so the exercise involves identifying the companies with links to Sudan and then constructing a Sudan-free index that mimics established benchmarks.

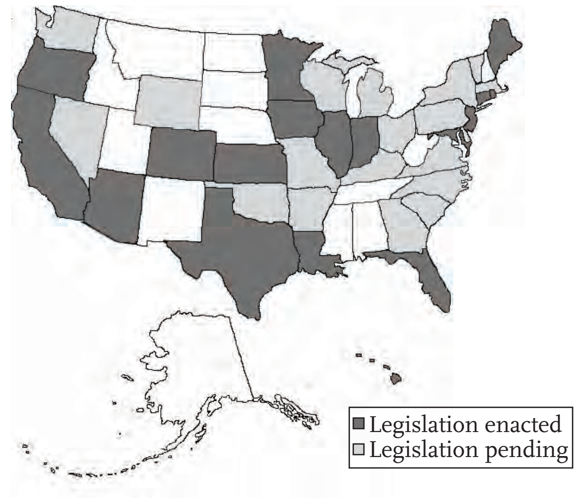
Generally, the states have asked their money managers to figure out which stocks have a Sudan link. Money managers, in turn, have left it to the social investing firms, such as KLD Research and Analytics, Institutional Shareholders Services, and the Conflict Securities Advisory Group to identify companies involved in Sudan. KLD originally said that 124 companies were on its Sudan list, including eight American companies.[14] The social investing firms refuse to make the names public, however, since that is how they earn their money.[15] And apparently, the lists are not definitive. Some companies appeared on the original KLD list even though they were not actually doing business in Sudan. And for at least one, 3M, its involvement was the result of a U.N. purchase of Scotchshield Ultra Safety and Security Film to protect embassy and mission windows from explosions, a transaction that was authorized by the federal government.[16]

The Sudan Divestment Task Force (2007) publishes a more tightly targeted list, recommending the divestment of only 28 companies. These are companies that 1) do business with the Sudanese government; 2) provide little benefit to the disadvantaged of Sudan; and 3) have not developed policies to prevent their business activities from inadvertently contributing to the government's genocide capability.

Fund managers take the Sudan-link list and attempt to construct "Sudan Free" funds that mimic popular benchmarks. This step is also a challenge. According to the chief investment strategist at Northern Trust, whose fund tracks the Morgan Stanley Capital International Europe Australasia Far East index (MSCI EAFE) index, constructing a "Sudan-free" index will require divesting 25 companies or 9 percent of assets.[17]

Despite the challenges involved, public funds have moved $2.2 billion away from Sudan-linked companies between 2005 and 2007.[18]

Figure 4. States that Have Enacted or Are Considering Sudan Divestment Legislation, 2007



Sources: National Conference of State Legislatures (2007); Office of Missouri State Treasurer (2005); Sudan Divestment Task Force (2007); State of Arizona (2005), State of Arkansas (2007); and State of Louisiana (2005 and 2007).

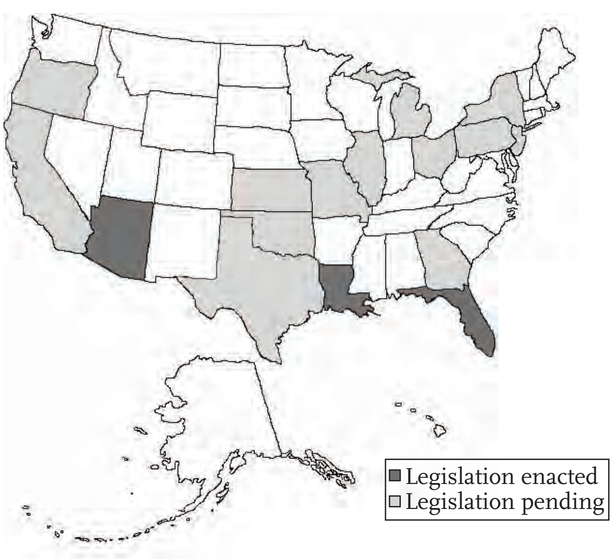
Iran

More recently, "terror-free" investment has been picking up steam. The primary targets are companies doing business in Iran.[19] As noted above, U.S. companies have long been barred from operating in Iran, but more than 200 multinationals have investments there, from Royal Dutch Shell and France's telecommunications-equipment company Alcatel to Sweden's electronics company Ericsson.[20]

On June 8, 2007, Florida's governor signed a Sudan and Iran Divestiture bill into law. Florida follows other states with regard to Sudan, but is the first to enact divestiture legislation for companies doing business with Iran.[21] Louisiana, which had passed "terror-free investing" legislation in 2005, permits — but does not require — divestment. Arizona, which also passed legislation in 2005, only requires the public retirement system to disclose investments in terror-linked companies. In Illinois, the state Senate passed an Iran divestment bill on June 14, 2007 which would compel the state's five retirement systems to divest Iran-connected companies in energy and other natural resources.[22] California, Georgia, Kansas, Michigan, Missouri, New Jersey, New York, Ohio, Oklahoma, Oregon, Pennsylvania, and Texas are also considering adopting Iran-free investing (see Figure 5).[23]

If some of the bills are passed in their broadest form, institutions may be forced to sell $18 billion in investments.[24] Selling all Iran-related securities would add substantial risk to an indexed international equity portfolio. State Street Global Advisors (SSgA), Boston, has had preliminary conversations with clients about Iran divestments. SSgA estimates that if all companies with ties to Iran were removed from Morgan Stanley's EAFE index and replaced with similar performing companies, it would introduce a tracking error of up to 200 basis points, compared to the tracking error on a typical index of between five and 10 basis points.[25]

Figure 5. States that Have Enacted or Are Considering Iran Divestment Legislation, 2007



Sources: National Conference of State Legislatures (2007); Office of Missouri State Treasurer (2005); State of Arizona (2005), and State of Louisiana (2005 and 2007).

Some state legislatures, however, are limiting the scope of divestiture to energy-related stocks, arguing that such action is likely to be most effective in curbing terrorist activities. Narrowing the scope greatly reduces the number of stocks and amount that would have to be sold.[26]

Iran is a more politically complicated issue than Sudan. Sometimes promoters of "divest Iran" suggest that the effort is aimed at Al Qaeda.[27] But Al Qaeda is an enemy without a state and therefore difficult to target. In addition, the U.S. government is not enthusiastic about the effort, because it is working on its own initiative with allies to curtail business transactions tied to nuclear activities and support for terrorism. Treasury and State Department officials have expressed concern that broad-based divestiture could cause a backlash if allies feel that a wide range of companies is under attack.[28]

Despite the complexities involved with Iran, some states have gone even further and are pursuing "terror-free" investing, which extends the scope of the boycott to all the countries on the U.S. State Department's State Sponsors of Terrorism list, which includes Cuba, Syria, and North Korea. Missouri has been at the forefront of this movement. The State Treasurer claims that at least 500 big foreign companies and multinationals do at least some business in countries identified as sponsoring terrorism.[29] The Treasurer's goal is to have all Missouri's investments "terror–free," although the state legislature has not yet passed divestiture legislation for the state pension funds.[30] Anti-terrorism bills have been enacted in Arizona, Florida, and Louisiana.

Given the substantial amount of social investing by public pension funds, it is useful to consider the likely impact of such activity on the targets of the social screen and the likely impact on the pension funds themselves.

The Economics of Social Investing

The academic literature suggests that social screens are likely to have very little impact on the target company and that the impact on the pension fund depends on the scale of the screen.

Impact on Targeted Company

The SIF Report suggests that social investing will have a financial impact — that investors are putting their money to work in ways that will build "a better, more just, and sustainable economy." The academic literature on the stock market, however, suggests the opposite. And a comprehensive survey on the effect of the South African boycott — the largest and most visible social action — documents virtually no effect, suggesting the real world mirrors the textbook model.

Injecting politics into pension policy is problematic.

According to standard finance theory, the price of any stock equals the present discounted value of expected future cash flows. Thus, the stock of a particular firm has a lot of close substitutes, which makes the demand curve for a particular stock, in economists' terms, almost perfectly elastic.[31] That is, even a big change in quantity demanded will lead to only a small change in price. And any significant deviation from the fundamental price would represent a profitable trading opportunity that market participants would quickly exploit and thus correct.[32] In other words, boycotting tobacco stocks or international companies doing business in Sudan or Iran may result in a temporary fall in the stock price, but as long as some buyers remain they can swoop in, purchase the stock, and make money. And the buyers are out there. The "Vice Fund," which was established in September 2002, specializes in only four sectors — alcohol, tobacco, arms, and gambling, and thus stands ready to buy the stocks screened out of standard portfolios.[33] Thus, the textbooks suggest that boycotting tobacco companies or international companies doing business in Iran is unlikely to have any impact on the price of their stocks.

A 1999 study took a comprehensive look at how equity prices responded to sanctions and pressures for firms to divest their holdings in South Africa.[34] The conclusion that emerges from a series of event studies is that the anti-apartheid shareholder and legislative boycotts had no negative effect on the valuation of banks or corporations with South African operations or on the South African financial markets. This is not to say that the boycott was not important politically, but merely that it did not impact financial markets. The study looks at pressure put on firms from both congressional action and divestiture by pension funds and universities.

The bulk of the congressional action occurred in 1985 and 1986, when the U.S. government passed legislation imposing trade embargoes, currency sanctions, and lending restrictions. Most importantly, the Comprehensive Anti-Apartheid Act of 1986 prohibited new private or public loans to South Africa other than for humanitarian purposes. To test the impact of this prohibition, the study identified ten important legislative events leading up to the 1986 Act and examined their impact on a portfolio of nine banks with South African loans. The results showed few significant effects on bank stock prices and where significant they were of the wrong sign.

Pension funds and universities also put pressure on corporations. Pension fund involvement in the South African issue began when a number of churches threatened to divest from banks doing business in South Africa. In 1977, the first iteration of the "Sullivan principles," which called for non-segregation of races and equal pay for equal work, was adopted in the hope that by adhering to these principles, companies could continue doing business in South Africa and at the same time promote non-discrimination policies.[35] But many felt that the Sullivan principles did not go far enough, so Reverend Sullivan called in 1987 for companies to withdraw completely from South Africa. Many funds began to divest themselves even of companies that had followed these principles.[36] The study looked at the effect of 16 pension fund divestments on a portfolio of firms with the highest exposure in South Africa. The results showed no evidence that the pension fund divestment announcements hurt firms with major South African operations.

In short, financial textbooks characterize the demand curves for individual stock as infinitely elastic, so the price of the stock of a targeted company is unlikely to be affected by a boycott so long as additional buyers remain to scoop up the profit opportunity. The fact that an effort as large as the boycott of firms doing business in South Africa had virtually no effect on stock prices suggests that the financial effect of social investing on target firms is roughly zero.

Impact on the Pension Fund

But does social investing affect the pension fund adversely? Modern portfolio theory states that investors should diversify their asset holdings over a variety of securities, so that the returns on all financial assets do not move in lockstep.[37] The question is how many securities are needed for the portfolio to be efficient? The answer is that an investor needs only 20-30 stocks to construct a fully diversified portfolio.[38] The small number of required stocks suggests that eliminating, say, tobacco, which accounts for about 1 percent of the market capitalization of the S&P 500, should leave enough securities to construct something very, very close to the market index. As the number excluded increases, it would become increasingly difficult to duplicate the market.[39]

In terms of evidence, considerable research has compared the risk-adjusted return of screened portfolios to the return of unscreened portfolios. Most of the studies cover the period since the mid-1980s. Overall, the results show that the differences in risk-adjusted returns between the screened portfolios and unscreened portfolios are negligible and in most cases zero.[40] A few studies have focused on the effects of divestiture of tobacco stocks in the 1990s and show that the risk and returns for the S&P 500 with and without tobacco stocks were almost identical.[41]

In addition to comparing the performance of screened portfolios to the S&P 500, several studies have examined the performance of social investment funds relative to the S&P 500. The Domini Social Index includes 400 U.S. companies that pass multiple and broad-based social screens, and the Calvert Social Index is a broad-based index including 659 companies. The majority of these studies show that socially screened funds have no significant effect on risk-adjusted returns.[42]

In contrast, the evidence from the early days of the South Africa divestiture suggested that screening out stocks meant large losses. For example, in the 1970s, Princeton University reported that the stocks that had been excluded because of South Africa ties outperformed other holdings by 3 percent.[43] As time passed and researchers undertook more comprehensive studies, the conclusions shifted. For example, one study examined the performance of a South-Africa free portfolio compared to an unscreened NYSE portfolio for the period 1960-1983 and found that, after adjusting for risk, the portfolio excluding South Africa companies actually performed better than the unscreened portfolio.[44] The positive results occurred because companies with South Africa ties were large and excluding these companies increased reliance on small-cap stocks, which performed better on a risk-adjusted basis during this period. During the late 1980s, the results were also mixed. On the one hand, a 1998 study analyzed data from the Surveys of State and Local Employees (PENDAT) from the early 1990s and found no significant effect on returns from restrictions on South Africa investments.[45] On the other hand, the S&P 500 including South Africa stocks performed slightly better than the index without the stocks, and one study of public pension plans found that South Africa restrictions had a negative effect on returns.[46] Thus, a large divestiture movement could have some negative effect on returns earned by public plans.

State actions may conflict with federal foreign policy.

Another aspect that has received less attention is the administrative costs of social investing. It is possible that social investing is associated with higher fees and therefore has lower net returns because additional resources are required by fund managers to do the screening. The 2003 SIF Report concluded that socially responsible funds appear as competitive as other funds when it comes to administrative costs. However, others challenge this view by pointing out that some of the large-cap social index funds have above-average fees.[47] Moreover, in the case of Sudan and Iran, constructing new indices to match existing benchmarks involves substantial costs.

In short, theoretical models of portfolio choice imply that restricting the portfolio to socially responsible investments could have an effect on the rate of return by limiting the ability to diversify. Given the large number of stocks available, however, the cost — using traditional asset pricing models — is likely to be negligible. The bulk of the studies, which compare risk-adjusted returns for socially screened portfolios to those of unrestricted portfolios, supports this claim. Although a "terror-free" effort as large as the South African divestiture may have had some effect.[48] And administrative costs may be an important issue.

Public Plans Are Not Suited to Social Investing

In the late 1970s, some observers identified the large and rapidly growing funds in state and local pension plans as a mechanism for achieving socially and politically desirable objectives. The initial debate focused on attempts to exclude from pension portfolios companies with specific characteristics, such as those with almost totally nonunion workforces or investments in South Africa. The focus quickly shifted to undertaking pension investments that would foster social goals such as economic development and home ownership.[49] Advocates generally contended that the broader goals could be achieved without any loss of return.

Early reports, however, suggested that the targeting did involve sacrificing return. For example, a 1983 study of state-administered pension funds showed that many states had purchased publicly or privately insured mortgage-backed pass-through securities to increase homeownership in their state.[50] Analysis of the risk/return characteristics of these targeted mortgage investments revealed that 10 states either inadvertently or deliberately had sacrificed as much as 200 basis points to foster homeownership. Similarly, in 1992, Connecticut's state pension fund lost $25 million attempting to shore up Colt Industries. The firm went bankrupt two years after the fund bought a 47 percent interest in an attempt to protect Connecticut jobs.[51] In Kansas, the state pension fund lost between $100 and $200 million on defaulted loans from an in-state investment program that included a chain of video stores, a steel mill, and a failed savings and loan bank.[52] State and local pension funds were on a naïve and dangerous path.[53]

The losses in the 1980s and early 1990s were a sharp wake-up call to a number of public pension fund managers who appeared to believe that they could accomplish social goals without sacrificing returns. Over the last 20 years, the rhetoric associated with targeted investments has changed markedly. Public pension fund managers, sensitive to the potential for losses, go out of their way to make clear that they are no longer willing to sacrifice returns for social considerations; almost every definition of social investing includes a requirement that the investment produce a "market rate of return."

Divestment can be complicated, costly, and ineffective.

In the recent debate regarding Sudan and Iran, trustees of public plans have spoken out opposing such initiatives. Administrators at California's large public pension funds — CalPERS and CalSTERS — oppose the California bills requiring divestiture. A CalPERS spokesman said that determining which companies have dealings with Iran would be a struggle: "We don't necessarily have the resources or the expertise."[54] Similarly, the executive director of Massachusetts' Pension Reserves Investment Management Board, which invests public plan assets, said "You hire us to make you money, and when you restrict our ability to pick stocks, you likely restrict our ability to get returns."[55] Ohio's legislature initially considered following the Missouri model making investments "terror-free" by filtering out all stocks with links to North Korea, Syria, Sudan or Iran. The pension fund administrators argued that the measure would affect stocks of more than 170 companies and require the funds to sell more than $9 billion. Administrative costs would exceed $60 million.[56]

Moreover, legislative mandates for pension fund investing may have implications elsewhere in the state. For example, in the case of Ohio the "terror-free" investing bill would have roped in companies such as Honda, DaimlerChrsyler AG, Bridgestone Corporation, Siemens, and Thyssenkrupp AG, all of which had investments in Ohio.[57] The pension funds estimated these companies employed more than 45,000 workers. In response, the legislature narrowed the scope of the effort and decided to go after only those companies with more than $20 million in Iran's energy sector.[58]

Most importantly, three aspects of public pension funds make them particularly ill-suited vehicles for social investing.

First, the decision-makers and the stakeholders are not the same people. The decision-makers are either the fund board or the state legislature. The stakeholders are tomorrow's beneficiaries and/or taxpayers. If social investing produces losses either through higher administrative costs or lower returns, tomorrow's taxpayers will have to ante up or future retirees will receive lower benefits. The welfare of these future actors is not well represented in the decision-making process.

Second, whereas the investment practices of many large public funds are first rate, other boards are much less experienced. The boards of smaller funds often consist of between five and eleven people including mayors, treasurers, comptrollers, city councilors, union leaders, and citizens. The process is often conducted behind closed doors and subject to little public scrutiny. Moreover, many state and local plans are still run in-house and involve the selection of individual stocks rather than broad-based indices. A front page *New York Times* article reported that political money sometimes affects pension investment decisions. As a result, pension boards may overlook excessive fees or high rates of turnover, and they may approve inappropriate investments.[59] Introducing divestment requirements into such an environment is problematic.

The final issue is the slippery slope. This round of divestment began with Sudan and involved only a few stocks. It is quickly spreading to Iran, where the issues are even more complicated and the number of companies substantially greater. If "terror-free" investing gains momentum, what is going to stop the spread to, say, Saudi Arabia, original home of 15 of the 19 hijackers involved in the 9/11 terrorist attacks? At some point, the administrative costs of broad-based divestiture will balloon and excluding large numbers of companies will definitely hurt returns.

Conclusion

Everyone is horrified by genocide, and no one wants to support terror. Yet even those who sell socially responsible funds admit that the issue of divestiture is complex. "You have to ask yourself what your goal is with divestment. What's there if the government falls? Is there a government there that will take over and be better? If the companies that pull out provide money, goods, and services, is there an understanding that will make the people poorer in the short run?"[60] Yes, the regime changed in South Africa, but many South Africans say that it was the cultural boycott — particularly in sports — rather than the divestiture of companies with South-Africa-linked activities that resulted in the peaceful ascendance of Nelson Mandela as president.[61]

In addition to the issue of effectiveness, the fundamental question is where foreign policy should be made. Sudan does not raise as many issues in this regard as Iran. The State Department is working closely with foreign governments to get specific companies to stop selected activities, particularly in Iran's energy sector. Additionally, in more than one instance, federal courts have ruled that state legislation regarding social investment was unconstitutional on grounds that it overlapped with federal regulations.[62] Statements by officials at both Treasury and the State Department make clear their concern that a broad-based divestiture could disrupt the government's effort.

But even assuming that divestment is an effective mechanism to stop genocide and reduce terror risk and that state legislatures and pension fund boards are the right place to make foreign policy, the issue remains whether pension funds are an appropriate vehicle for implementing that policy. The answer seems unquestionably "no." The decision-makers are not the people who will bear the brunt of any losses; rather they will accrue to future beneficiaries and/or taxpayers. In many instances, the environment surrounding public pension fund investing is politically charged and encouraging public pension fund trustees to take "their eyes off the prize" of the maximum return for any given level of risk is asking for trouble. And finally, boycotting companies doing business with particular countries is a slippery slope — today Sudan and Iran, tomorrow Saudi Arabia.

Endnotes

1 Actually, as early as 2000, many college endowments and public pension funds, including CalPERS, did not participate in the initial public offering of PetroChina, because of its involvement in oil extraction in Sudan. See Fried (2006).

2 Amnesty International (2007) and Hagan and Pallioni (2006).

3 U.S. Department of Treasury (2007).

4 The Federal Reserve Flow of Funds reports total assets for state and local pension plans of $2,701.5 billion in 2005.

5 The majority of funds (64 percent) use 5 or more screens; the remainder are divided between those with a single screen (25 percent) and those with 2-4 screens (11 percent).

6 Multi-employer plans have made a few efforts to stimulate demand for union labor, especially in the construction trades. And some health care companies and hospitals screen for tobacco. But generally very little social investment has taken place. The Social Investing Forum (SIF), however, has reported that nearly 10 percent, or $137 billion, of screened assets are in corporate defined benefit plans. It was impossible for the author to ferret out where this money was. The only corporation mentioned by SIF was the Federal Home Loan and Mortgage Corporation (Freddie Mac). Since Freddie Mac invests most of its money in home mortgages, it is not clear how it is involved in social screening. In a personal communication, SIF's Joshua Humphreys said that there are other corporations that are not included on the list, but SIF refused to give out any additional names.

7 ERISA requires a fiduciary to act "solely in the interests of the [plan] participants and beneficiaries… for the exclusive purpose" of providing benefits to them. A fiduciary must also act "with the care, skill, prudence, and diligence" of the traditional "prudent man." See Langbein, Stabile, and Wolk (2006).

8 Lanoff (1980).

9 U.S Department of Labor (1994).

10 Some companies offer their employees one or more mutual fund options that pursue social investing criteria. Such an option does not raise any fiduciary concerns because the decision is left entirely to the participant.

11 The New Jersey legislation requires its pension funds to divest holdings in businesses that have equity stakes in the Sudan. A similar bill in Illinois, enacted in June 2005, provides that a fiduciary should not transact any business with a company doing business with Sudan, although in February 2007 the Federal District Court for the Northern District of Illinois ruled this act unconstitutional. Oregon also passed such a law for its public pension funds, while Louisiana legislation permits, but does not require, divestiture of investments linked to the Sudan.

12 U.S. Department of State (2007a). In 1997, President Clinton issued an executive order barring companies from conducting business in the Sudan; foreign businesses do not fall under that restriction.

13 For example, Texas legislation, signed into law on June 15, 2007, will require both the Teacher Retirement System and the Texas Employees Retirement System to ask affected companies to cease business in Sudan and to divest shares of unresponsive companies. The Hawaiian Employees' Retirement System was required to divest from Sudan-related investments when legislation went into effect July 1st. In Connecticut, legislation enables the Treasurer to divest state funds invested in companies doing business in Sudan or decide against further or future investments. Nineteen other states have pending divestment legislation or are taking other actions towards divestment. For example, the New York State Comptroller adopted a targeted Sudan divestment policy for the New York State Common Retirement Fund.

14 Fried (2006).

15 A KLD employee told us that KLD sells their compliance list to institutional money managers who are interested in social divestment and that it is not in the company's best interest to allow outside organizations to obtain their list in whole or in part. KLD also would not provide information about the American companies on the list. This information was obtained through a personal communication with KLD's Randy O'Neill.

16 Fried (2006). In a personal communication, 3M's Jacqueline Berry also confirmed the sale of the Security Film to the United Nations.

17 Fried (2006) and a personal communication with Northern Trust's Priya Khetarpal.

18 Pichardo (2007).

19 The U.S. House Financial Services Committee on May 23, 2007 passed legislation that would protect public pension funds and their money managers from litigation in response to Iranian divestiture.

20 King (2007).

21 The new law requires the State's Board of Administration to contact companies with business ties to Sudan and with energy ties in Iran, asking them to stop such activities; unresponsive companies would have to be divested 90 days after the communication. See Pensions and Investments (2007a).

22 *Pensions and Investments* (2007b).

23 The California legislation, which was proposed in January and as of July is still in committee in the state senate, would force two of the nation's largest pension funds — for the state's public employees and teachers, with combined holdings of $400 billion — to remove their money from any foreign company doing business with Iran. See Abdollah (2007).

24 Pichardo (2007).

25 See Pichardo (2007); and also confirmed by a personal communication with SSgA's Gary Conway. Also, according to Northern Trust Global Investments, companies doing business in Iran comprise about 25 percent of the MSCI EAFE index, compared to about 15 percent with ties to Sudan.

26 When narrowed, the number of companies involved declines from 100-125 to the 19-25 range. In California, for example, CalPERS would have to divest $8 billion if a bill introduced by Joel Anderson is passed. If narrowed to companies only with energy interests in Iran, the divestiture requirement drops to $2 billion. See Pichardo (2007).

27 LaFranchi (2007).

28 See U.S. Department of Treasury (2007); U.S. Department of State (2007b); and McKinley (2007).

29 Karmin (2007).

30 See Frick (2007).

31 For a summary of the literature on testing the extent to which the supply curve is elastic, see Munnell and Sundén (2005).

32 The caveat is, of course, that potential buyers must not think the sale (purchase) reflects a negative (positive) assessment of the firm's financial condition or business prospects that could affect future cash flows. If potential purchasers believe that the seller is disposing of the stock because he knows something adverse they do not, they will revise down their assessment of the stock's value, and the transaction will reduce the price of the stock.

33 Apparently the Vice Fund has grown at 20 percent annually since its inception, outpacing the S&P's growth of 16 percent. At first blush, these results appear to contradict the conclusion that screening has no impact, but the period under consideration is far too short for these numbers to have meaningful implications. See Authers (2007).

34 Teoh, Welch, and Wazzan (1999).

35 During the 1970s, as opposition against the apartheid government increased, social activists charged that companies investing in South Africa indirectly supported the government and its discrimination policies. In an initial effort to resolve the conflict, the Reverend Leon Sullivan in 1977 introduced a set of guidelines for companies doing business in South Africa, the so-called "Sullivan Principles." By 1987, 127 U.S. companies had signed on to the Sullivan principles (Auerbach, 1987).

36 For example, CalPERS divested itself of $9.5 billion worth of shares of companies holding a South African subsidiary. Pressure to divest and a worsening economic and political environment in South Africa led many companies (IBM, Exxon, Ford, GM and Chrysler) to sell their holdings. See Teoh, Welch, and Wazzan (1999).

37 An asset can be characterized by its expected return and the risk associated with that return, measured by the variance in returns. The risk of a specific asset can be broken down into two parts: risks that are unique to that stock (firm risk) and risks that stem from market-wide variations such as business cycle variation, inflation, and interest rate fluctuations

(market risk). When assets are combined in a portfolio, the return on the overall portfolio is given by the average return of the assets. And the risk associated with the portfolio is determined by the variance of the individual returns and the degree to which the individual returns vary together (covariance). Thus, by combining assets into a portfolio that have differing risk characteristics, an investor can create an efficient portfolio — a portfolio that is expected to achieve a given level of expected returns while minimizing risk.

38 Assume an investor plans to divide his money among *n* stocks selected from the entire market portfolio. The portfolio variance is given by:

$$\text{Portfolio variance} = 1/n * \text{average variance} + (1 - 1/n) * \text{average covariance}$$

As the number of securities in the portfolio increases, the contribution to total risk from the individual firm-specific risk decreases and the contribution from how the risks vary in relation to each other (covariance) increases. Thus, as the number of securities increases, the overall portfolio variance approaches the economy-wide risk, represented by the second term in the equation. With 2 stocks in the portfolio, half of the overall variance is due to firm specific risk and half to market risk. By the time a portfolio contains 10 securities, 90 percent of the portfolio's variance should be determined by the market risk. With a 20 stock portfolio, 95 percent of the variance should be determined by the overall market risk. See Brearley and Myers (1988).

39 Rudd (1981) and Grossman and Sharpe (1986) argue that the investor will not be able to exactly duplicate the market portfolio, because the screened portfolio will have relatively greater covariation in returns. Rudd also argued that social investing will introduce size and other biases into the portfolio, which will lead to a deterioration in long-run performance.

40 Guerard (1997); Hamilton, Jo, and Statman (1993); Statman (2000); Bauer, Koedijk, and Otten (2002); Dhrymes (1998); and Bello (2005). A similar result has been found for bond portfolios (D'Antonio, Johnsen and Hutton, 1997).

41 DiBartolomeo (2000). In the late 1980s and early 1990s, tobacco stocks performed slightly better than the S&P 500 but during the second half of the 1990s the tobacco stocks underperformed the S&P 500 on a risk-adjusted basis (Social Investment Forum, 1999; and Ferrari, 2000). However, the overall effect of divesting tobacco stocks should be small because they only account for about 1 percent of the S&P 500.

42 Kurtz and DiBartolomeo (1996); DiBartolomeo and Kurtz (1999); DiBartolomeo (1996); and Bello (2005). Some critics of these results contend that the comparable returns reflect the fact that the screened funds invest a higher proportion of their assets in small cap stocks. Small caps have out-performed large caps over the period 1995 to 2007 by more than 3 percentage points (10.9 percent versus 7.8 percent). The discrepancy since the trough in the market in 2002 has been even greater (20.0 percent versus 11.0 percent). Bello (2005) contends, however, that the sizes of the companies in the screened and unscreened portfolios are very similar.

43 Malkiel (1991).

44 Grossman and Sharpe (1986).

45 Munnell and Sundén (2001).

46 Romano (1993).

47 Hickey (2000).

48 A recent study (Karolyi, 2007) of terror-free investing concluded that there were no significant differences in risk or return of stock portfolios screened on the basis of their operations in countries designated as state sponsors of terrorism and the S&P 500. This study, however, focused exclusively on U.S. markets, where very few firms do business in terror-linked countries. The author notes that "Broadening the analysis to incorporate a global investment strategy may render different results and conclusions."

49 Two books were instrumental to broadening the social investing debate — Rifkin and Barber (1978) and Litvak (1981).

50 Munnell (1983).

51 Schwimmer (1992); and Langbein, Stabile, and Wolk (2006).

52 White (1991).

53 In their initial forays into economically targeted investments, public pension fund managers generally

did not appear to recognize the "Catch-22" nature of the exercise. For the most part, the goals of increasing in-state housing investment and maximizing returns are inconsistent in the United States' highly developed capital markets. Any housing investment that offers a competitive return at an appropriate level of risk, such as a GNMA, does not need special consideration by public pension plans nor would such consideration increase the long-run supply of mortgage loans. Investments by pension funds that would increase the supply of housing funds must by definition either produce lower returns or involve greater risk. Sophisticated advocates of targeted investments recognized the efficiency of the market for housing finance and argued that pension funds could make a contribution through innovative forms of housing finance. But that was not what was going on in 1983; the in-state mortgages purchased by public pension funds tended to be conventional fixed-rate 30-year mortgages. See Munnell (1983).

54 McKinley (2007) and also confirmed by a personal communication with CalPERS' Brad Pacheco.

55 Mishra (2006).

56 King (2007).

57 Ohio Retirement Study Council (2007).

58 King (2007).

59 Walsh (2004).

60 The comment is from Julie Gorte, director of social research at Calvert Investments (Fried, 2006).

61 Authers (2007).

62 Stern (2007).

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The Center for Retirement Research at Boston College was established in 1998 through a grant from the Social Security Administration. The Center's mission is to produce first-class research and forge a strong link between the academic community and decision makers in the public and private sectors around an issue of critical importance to the nation's future. To achieve this mission, the Center sponsors a wide variety of research projects, transmits new findings to a broad audience, trains new scholars, and broadens access to valuable data sources. Since its inception, the Center has established a reputation as an authoritative source of information on all major aspects of the retirement income debate.

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APPENDIX XV

LEGAL AND
CONSTITUTIONAL ISSUES

DATE: August 7, 2007

SUBJECT: Response to PERC Regarding Legal Issues Involving Divestment

TO: Jeffrey B. Clay, Executive Director, PSERS
Leonard Knepp, Acting Executive Director, SERS

FROM: Michael A. Budin, SERS Chief Counsel
Gerald Gornish, PSERS Chief Counsel

We have developed the following list of potential legal issues that need to be considered and addressed by the General Assembly in legislating mandatory divestment by a board of trustees of a public pension fund from investments in companies doing business in or with specific countries.

- Possible violation of fiduciary responsibility to members of the plan under 24 Pa.C.S. § 8521(e) and 71 Pa.C.S. § 5931(e), which could subject members of the board to personal liability.

- Possible violation of prudent investor rule prescribed by 24 Pa.C.S. § 8521(a) and 71 Pa.C.S. § 5931(a).

- Possible interference with the responsibilities and duties granted exclusively to the Federal government under the Foreign Commerce Clause of the U.S. Constitution (Art. I, § 8, cl. 3); the recognized constitutional power to conduct the nation's foreign affairs; and Federal preemption under the Supremacy Clause (Art. VI, cl. 2). See the recent case of *NFTC v. Giannoulias*, No. 06C4251, 2007 US. Dist. LEXIS 13341 (N.D. Ill. Feb. 23, 2007).

- Possible issues under Section 401(a) of the Internal Revenue Code, which requires a fund be used for exclusive benefit of members to remain a qualified non-taxable fund.

We point out that most, if not all, of these issues probably could be addressed by careful drafting.

We also attach a document that we believe will be helpful to PERC – a report for Congress prepared by the Congressional Research Service, entitled State and Local Economic Sanction: Constitutional Issues.

Please let us know if you have any further questions.

Attachment

Order Code RL33948

CRS Report for Congress

State and Local Economic Sanctions: Constitutional Issues

April 2, 2007

Jeanne J. Grimmett
Legislative Attorney
American Law Division

Prepared for Members and Committees of Congress

Congressional Research Service

State and Local Economic Sanctions: Constitutional Issues

Summary

States and localities have often proposed or enacted measures restricting their agencies' economic transactions with firms that do business with or in foreign countries whose conduct the jurisdictions find objectionable. While some maintain that sub-federal entities may enact such laws under sovereign proprietary powers and other constitutional prerogatives, others argue that such statutes impermissibly invade federal commerce and foreign affairs authorities and in some cases may be preempted by federal law. In 2000, the U.S. Supreme Court unanimously held in *Crosby v. National Foreign Trade Council* that a Massachusetts law restricting state transactions with firms doing business in Burma was preempted by a federal Burma statute. In *American Insurance Association v. Garamendi*, a 2003 case, the Court reaffirmed the relevance of the dormant federal foreign affairs power to preempt state law, but the scope of the 5-4 decision is unclear.

Due to the current situation in Darfur, a number of states have recently proposed or enacted some type of divestment legislation against Sudan. In the 109th Congress, House-passed H.R. 3127, the Darfur Peace and Accountability Act, provided that federal statutes were not to be construed to preempt certain state sanctions against Sudan, but the final, enacted version (P.L. 109-344) does not contain the provision. On February 23, 2007, a federal district court held Illinois' Sudan sanctions law to be unconstitutional and permanently enjoined its enforcement. Two 110th Congress bills — H.R. 180 (Lee) and S. 831 (Durbin) — contain provisions in support of state Sudan-related divestment measures. This report will be updated.

Contents

State and Local Economic Sanctions: Constitutional Issues

States and localities have often proposed or enacted measures restricting governmental transactions with firms doing business or having financial ties with foreign countries whose conduct the state or locality has found objectionable, particularly in the human rights area. This report summarizes constitutional arguments made for and against these laws and discusses *Crosby v. National Foreign Trade Council* and *American Insurance Association* v. *Garamendi*, U.S. Supreme Court decisions that address the constitutionality of state laws affecting U.S. foreign affairs. The report also discusses *National Foreign Trade Council* v. *Giannoulias*, a 2007 federal district court decision holding an Illinois Sudan sanctions law unconstitutional. It also suggests some possible legal ramifications of recent case law for future state and congressional action in this area and identifies legislation introduced in the 110th Congress addressing state economic sanctions.

Types of State and Local Economic Sanctions

State and local sanctions measures have generally taken the form of (1) selective purchasing or contracting laws, which generally prohibit state or local agencies from contracting with or procuring goods and services from companies that do business in a named country, or (2) selective investment laws, which prohibit states or local agencies from investing public funds in such companies. A variation of the latter is the state or local divestment law, which, for example, may require divestment by state pension funds of stock in companies that do business with or in a named country. In the 1990s, a number of state laws focused on conditions on Burma (Myanmar), while others targeted Nigeria, Tibet, Cuba, Indonesia, Switzerland, and Northern Ireland. Other state laws addressed poor foreign labor practices regardless of country. At least one state has passed legislation prohibiting pension fund investment in debt instruments issued by any nation designated by the State Department as supporting or engaging in terrorism.[1]

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[1] Mich. Comp. Laws Ann. § 38.1133 (West 2005); see also La. Rev. Stat. Ann. § 11:312 (West 2006), requiring state pension and retirement funds to provide seminannual reports on any investments in firms with facilities or employees in Iran, Libya, North Korea, Sudan or Syria. Missouri has administratively adopted policies to screen investments by two Missouri state funds and to require divestment from those firms known to sponsor terrorism or to operate with the government or government agencies in countries on the State Department's terrorist list. *See* statements of Missouri policies at [http://www.treasurer.mo.gov/antiterrorinvest.asp]. Other states are currently considering legislation aimed at divestment of state funds from companies doing business with the same. *See, e.g., California Seeks to Ban Investment in Iran*, N.Y. Times, April 2, 2007, at 14;

(continued...)

Due to the current situation in Darfur, a number of states have recently proposed or enacted some type of divestment legislation against Sudan.[2] H.R. 3127, the Darfur Peace and Accountability Act, as originally passed the House, provided that federal laws were not to be construed to preempt certain Sudan-related state sanctions. In September 2006, the Senate passed an amended version without the state law provision, and the House later agreed to the Senate amendment (P.L. 109-344). On February 23, 2007, in *National Foreign Trade Council v. Giannoulias*, an Illinois federal district court struck down the Illinois Sudan sanctions statute as unconstitutional.[3]

Overview of Constitutional Issues

State and local economic sanctions targeted at what is perceived as objectionable foreign government behavior ordinarily raise three constitutional issues: (1) whether they burden foreign commerce in violation of the Foreign Commerce Clause and, if so, whether they are protected by the market participant exception to the Clause; (2) whether they impermissibly interfere with the federal government's exclusive power to conduct the nation's foreign affairs; and (3) where Congress or the President has acted, whether they are preempted by federal law.[4]

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[1] (...continued)

Calpers Pressed to Drop Iran 'Terrorism' Investments (Update 1), Mar. 19, 2007, at [http://www.bloomberg.com]. The State Department, pursuant to section 6(j) of the Export Administration Act, currently lists Cuba, Iran, North Korean, Sudan, and Syria as countries whose governments have repeatedly provided support for acts of international terrorism. *See* 15 C.F.R. Part 742, Supp. No. 2, para. (a), at [http://www.access.gpo.gov/bis/ear/pdf/742.pdf].

[2] State statutes include Or. Rev. Stat. § 293.814 (2005); N.J. Stat. Ann. § 52:18A-89.9 (2005); 15 Ill. Comp. Stat. Ann. 520/22.5-22.6 and 5/1-110.5 (2006); 2006 Me. Legis. Serv. Ch. 537 (West); 2006 Conn. Legis. Serv. P.A. 06-51 (West); 2006 Cal. Legis. Serv. Ch. 442 (West).

[3] For further discussion, see *infra* notes 34-45 and accompanying text.

[4] For legal background, *see, e.g.*, Cong. Research Service, The Constitution of the United States of America. 2004 Supp. at 11-14 (H.Doc. 108-19)[hereinafter Constitution Annotated]; Louis Henkin, Foreign Affairs and the United States Constitution 149-69 (2d ed. 1996)[hereinafter Henkin]; Adrian Barnes, *Do They Have to Buy From Burma?: A Preemption Analysis of Local Antisweatshop Procurement Laws*, 107 Colum. L. Rev. 426 (2007); Lucien J. Dhooge, *Condemning Khartoum: The Illinois Divestment Act and Foreign Relations*, 43 Am. Bus. L. J. 245 (2006); Todd Steigman, *Lowering the Bar: Invalidation of State Laws Affecting Foreign Affairs Under the Dormant Foreign Affairs Power After* American Insurance Association v. Garamendi, 19 Conn. J. Int'l L. (2004); Brandon P. Denning, American Insurance Ass'n v. Garamendi, *and* Deutsch v. Turner Corp., 97 Am. J. Int'l L. 950 (2003); David D. Caron, *The Structure and Pathologies of Local Selective Procurement Ordinances: A Study of the Apartheid-Era South Africa Ordinances*, 21 Berkeley J. Int'l L. 161 (2003); Robert Stumberg, *Preemption & Human Rights: Local Options After* Crosby v. NFTC, 32 Law & Poly Int'l Bus. 109 (2000); Brandon P. Denning & Jack H. McCall, Crosby v. National Foreign Trade Council, 94 Am. J. Int'l L. 750 (2000); Daniel M. Price & John P. Hannah, *The Constitutionality of United States State and Local*

(continued...)

Foreign Commerce Clause

In granting Congress exclusive power to regulate interstate and foreign commerce (Art. I, § 8, cl. 3), the Constitution also impliedly prohibits states and localities from unreasonably burdening or discriminating against such commerce unless they are authorized by Congress to do so.[5] In a series of cases involving state taxes, the Supreme Court has set out criteria for examining whether state measures impermissibly burden foreign commerce where affirmative congressional permission is absent. In sum, the Court has required a closer examination of measures alleged to infringe the Foreign Commerce Clause than is required for those alleged to infringe its interstate counterpart, but has also provided scope for state measures in situations where a federal role is not clearly demanded.

In *Japan Line, Ltd. v. County of Los Angeles*, 441 U.S. 434 (1979), the Supreme Court struck down on Foreign Commerce Clause grounds a California state statute that applied an ad valorem property tax on foreign cargo containers, stating that "a more extensive constitutional inquiry is required" in foreign commerce cases for two reasons: (1) the "enhanced risk of multiple taxation" and (2) the possibility that the disputed measure "may impair federal uniformity in an area where federal uniformity is essential," or, in other words, may "prevent[] the Federal Government from 'speaking with one voice when regulating commercial relations with foreign governments.'"[6] The Court made clear that "[i]f a state tax contravenes either of these precepts, it is unconstitutional under the Commerce Clause."[7]

In *Container Corp. of America v. Franchise Tax Board*, 463 U.S. 159, 194 (1983), the Court upheld a state income tax law at variance with federal policy, indicating that state law may have "merely foreign resonances" without implicating foreign affairs and stating that a differing state tax law "will violate the 'one voice' standard if it *either* implicates foreign policy issues which must be left to the Federal

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[4] (...continued)

Sanctions, 39 Harv. Int'l. L. J. 443 (1998) [hereinafter Price & Hannah]; Alejandra Carvajal, *State and Local 'Free Burma' Laws: The Case for Sub-National Trade Sanctions*, 29 Law & Pol'y Int'l Bus. 257 (1998) [hereinafter Carvajal]; Jack L. Goldsmith, *Federal Courts, Foreign Affairs, and Federalism*, 83 Va. L. Rev. 1617 (1997); David Schmahmann & James Finch, *The Unconstitutionality of State and Local Enactments in the United States Restricting Business Ties with Burma (Myanmar)*, 30 Vand. J. Transnat'l L. 175 (1997)[hereinafter Schmahmann & Finch]; Richard B. Bilder, *The Role of States and Cities in Foreign Affairs*, 83 Am. J. Int'l L. 821 (1989); Harold G. Maier, *Preemption of State Law: A Recommended Analysis*, 83 Am. J. Int'l L. 832 (1989); Constitutionality of South African Divestment Statutes Enacted by State and Local Governments, 10 Op. Off. Legal Counsel 49 (1986) (concluded that certain state divestment laws were constitutional)[hereinafter DOJ Opinion].

[5] New York v. United States, 505 U.S. 144, 171 (1992); South-Central Timber Dev., Inc. v. Wunnicke, 467 U.S. 82, 87-93 (1984); note, *e.g.*, Kraft Gen. Foods v. Iowa Dept. of Revenue, 505 U.S. 71, 81 (1992)("Absent a compelling justification ... a State may not advance its legitimate goals by means that facially discriminate against foreign commerce.").

[6] Japan Line, Ltd. v. County of Los Angeles, 441 U.S. 434, 446-48, 451 (1979).

[7] *Id.* at 451.

Government or violates a clear federal directive."[8] The Court noted that the second of these factors "is, of course, essentially a species of preemption analysis."[9] The Court later concluded in *Barclays Bank PLC v. Franchise Tax Board of California*, 512 U.S. 298 (1994), a case examining California's income-based corporate franchise tax, that even a state statute that may make it more difficult for the federal government to speak in a solo international trade voice will be sustained if there is no clear indication that Congress had intended to bar the state practice. The Court stated that *Container Corporation* and a subsequent case, *Wardair Canada Inc. v. Florida Dep't of Revenue*, 477 U.S. 1 (1986), in which the Court upheld a state tax on jet fuel purchased by foreign airlines, suggest that "Congress may more passively indicate that certain state practices do not 'impair federal uniformity in an area where federal uniformity is essential,' ...; it need not convey its intent with the unmistakable clarity required to permit state regulation that discriminates against interstate commerce...."[10]

Where Congress has not clearly immunized a state selective purchasing or divestment law for Foreign Commerce Clause purposes, arguments that the law impermissibly burdens foreign commerce[11] may be countered by invocation of the market participant doctrine. First articulated in *Hughes v. Alexandria Scrap Corp.*, 426 U.S. 794 (1976), the doctrine exempts from the clause those laws in which the state or local government acts as a buyer or seller of goods rather than as a regulator.[12] It is counter-argued, however, that the doctrine is inapplicable where the state seeks to affect behavior beyond the immediate market in which it is operating, that it does not immunize laws from other constitutional challenges, and that, as suggested by the Supreme Court, it may not even apply in Foreign Commerce Clause cases.[13]

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[8] Container Corp. of America v. Franchise Tax Board, 463 U.S. 159, 194 (1983).

[9] *Id.*

[10] Barclays Bank PLC v. Franchise Tax Board of California, 512 U.S. 298, 323 (1994).

[11] *See* Price & Hannah, *supra* note 4, at 478-82; Schmahmann & Finch, *supra* note 4, at 189-91.

[12] Carvajal, *supra* note 4, at 270-74 (1998); DOJ Opinion, *supra* note 4, at 53-59 (1986)(concluded that state divestment laws were constitutional). *Trojan Technologies, Inc. v. Pennsylvania*, 916 F.2d 903, 909-913 (3d Cir. 1990), *cert. denied*, 501 U.S. 1212 (1991), applied the doctrine to a state "Buy America" law.

[13] *See, e.g.* South Central Timber Dev., Inc. v. Wunnicke, 467 U.S. at 99 (downstream effects); United Building & Construction Trades Council v. Mayor & Council of Camden, 465 U.S. 208 (1984)(no immunity from other constitutional challenges); Reeves, Inc. v. Stake, 447 U.S. 429, 437-38, n.9 (1980)(application in Foreign Commerce Clause cases unclear). *See generally* Price & Hannah, *supra* note 4, at 482-90; Schmahmann & Finch, *supra* note 4, at 191-97.

The Court of Appeals in *National Foreign Trade Council v. Natsios*, 138 F.3d 38 (1st Cir. 1999), *infra* note 24, concluded that the State of Massachusetts was not acting as a market participant in enacting its Burma sanctions law because it was "attempting to impose on companies with which it does business conditions that apply to activities not even remotely connected to such companies' interactions with Massachusetts." *Id.* at 63. The (continued...)

Intrusion into Foreign Affairs

In *Zschernig v. Miller*, 389 U.S. 429 (1968), the Supreme Court struck down an Oregon law prohibiting nonresident aliens from inheriting property if they could not satisfy the state courts that their home country allowed U.S. nationals to inherit estates on a reciprocal basis and that payments to foreign heirs from the Oregon estate would not be confiscated. Although the federal government had not exercised its power in the area, the Court nonetheless found that the inquiries required by the state statute would result in "an intrusion by the State into the field of foreign affairs which the Constitution entrusts to the President and the Congress."[14] The Court distinguished *Clark v. Allen*, 331 U.S. 503 (1947), which had upheld a similar California statute, on the ground that the statute in that case could be implemented through "a routine reading of foreign law" and did not require the particularized inquiries demanded by the Oregon law.[15] Although *Zschernig's* parameters have been viewed as unclear,[16] it is argued that selective procurement laws are directed at influencing or scrutinizing foreign behavior in the manner that the *Zschernig* Court found objectionable[17] and that courts that have upheld restrictive procurement laws attacked on *Zschernig* grounds have emphasized that the laws applied neutrally to all foreign products and thus did not require the assessment of a particular government's policies that might result in constitutional infirmity.[18]

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[13] (...continued)
court also found that in any event the state would not be shielded from Foreign Commerce Clause scrutiny because of questions as to whether the exception "applies at all (or without a much higher level of scrutiny) to the Clause." *Id.* at 65; *see also* Antilles Cement Corp. v. Acevedo Vilá, 408 F.3d 41, 46-47 (1st Cir. 2005). As indicated *infra*, the Supreme Court did not take up the Foreign Commerce Clause issue in its ruling on the Massachusetts law.

[14] Zschernig v. Miller, 389 U.S. 429, 432 (1968).

[15] *Id.* at 433-36.

[16] *See, e.g.*, Henkin, *supra* note 4, at 162-65; Bilder, *supra* note 4, at 825-26; or further discussion, *see* Constitution Annotated, *supra* note 4, at 11-14.

[17] *E.g.*, Price & Hannah, *supra* note 4, at 457-65; Schmahmann & Finch, *supra* note 5, at 198-99.

[18] *See Trojan Technologies*, 916 F.2d 903; K.S.B. Technical Sales Corp. v. North Jersey Dist. Water Supply Comm'n, 381 A.2d 774 (N.J. 1977); *and generally* Price & Hannah, *supra* note 5, at 469-71. Prior to the lower court rulings on the Massachusetts Burma law, *see infra* note 24, at least one state "Buy America" law had been struck down on foreign affairs grounds. Bethlehem Steel Corp. v. Bd. of Comm'rs of the Dep't of Water & Power of Los Angeles, 276 Cal. App. 221 (1969).

It has also been argued that while state and local divestment measures may well survive *Zschernig* scrutiny, the principles underlying the market participant doctrine — that the Commerce Clause was not intended "to limit the ability of the States themselves to operate freely in the free market" and that judicial restraint in the area is "counseled by considerations of state sovereignty, the role of each state as 'guardian and trustee of its people,'" — should make the doctrine generally applicable and thus state proprietary actions should not be subject to the *Zschernig* principle. DOJ Opinion, *supra* note 4, at 63-64, *quoting* Reeves, Inc. v. Stake, 447 U.S. at 437-38.

Federal Preemption

In exercising its delegated powers, Congress may, by virtue of the Supremacy Clause (Art. VI, cl. 2), preempt state and local laws that conflict with or are incompatible with federal legislation and thus limit the use of powers that a state or locality may exercise concurrently with Congress. Where Congress has not expressly preempted state and local laws, two types of implied federal preemption may be found: *field preemption*, in which federal regulation is so pervasive that one can reasonably infer that states or localities have no role to play,[19] and *conflict preemption*, in which "compliance with both federal and state regulations is a physical impossibility,"[20] or where the state law, as described by the Supreme Court in *Hines v. Davidowitz*, 312 U.S. 52 (1941), "stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress." In preemption cases involving foreign affairs, courts may well weigh the deference traditionally accorded areas subject to state and local regulation against the policy considerations implicated by the federal scheme affecting foreign affairs or commerce. In *Hines*, which invalidated a state alien registration statute on conflict grounds, the Court reiterated the long-recognized, constitutionally based supremacy of federal authority in foreign affairs and made clear that any concurrent state power in the area must be "restricted to the narrowest of limits," distinguishing the states' limited authority with regard to aliens from their broadly-based power to tax.

Depending on the nature of a state statute and the type of federal action taken to deal with a problematic foreign nation, opponents of a sanctions law may thus argue that, absent express preemption, a state law may conflict with federal laws and policies targeted at a specific country with respect to the activities and persons covered, or that there is reason to presume that Congress intended that all state and local measures targeting a particular country be preempted.[21] In response, it might be maintained, *inter alia*, that federal limitations on the exercise of proprietary powers to contract and invest must be expressly intended or must result from a highly pervasive federal scheme.[22] Moreover, state laws may arguably mandate consequences that differ from federal remedies or that do not exist on the federal level so long as the federal legislation or action involved does not constitute a "complex and interrelated federal scheme of law, remedy and administration."[23]

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[19] *See, e.g.*, Wardair Canada Inc. v. Florida Dep't of Revenue, 477 U.S. 1, 6 (1986).

[20] Florida Lime & Avocado Growers, Inc. v. Paul, 373 U.S. 132, 142-43 (1963).

[21] Price & Hannah, *supra* note 4, at 472-78; Schmahmann & Finch, *supra* note 4, at 184-89.

[22] *See, e.g.*, DOJ Opinion, *supra* note 4, at 64-65.

[23] *See id.* at 65-66, *citing* Wisconsin Dep't of Industry, Labor, and Human Relations v. Gould, Inc., 475 U.S. 282, 286 (1986); Carvajal, *supra* note 4, at 261-65.

Recent Judicial Rulings on State Sanctions

In *Crosby v. National Foreign Trade Council*, 530 U.S. 363 (2000), the Supreme Court unanimously ruled that a Massachusetts selective purchasing law targeted at Burma was preempted by federal Burma sanctions contained in the Foreign Operations Appropriations Act, 1997, P.L. 104-208.[24] At the time, the absence of well-developed case law directly addressing sub-federal sanctions had made the outcome of a constitutional challenge to state sanctions laws unclear. Although various Supreme Court cases had examined aspects of such laws, none directly ruled on such a statute. Moreover, the few state cases scrutinizing such measures on constitutional grounds differed in result.[25]

Although Congress had not expressly preempted state laws in the federal Burma statute, the Court, applying conflict preemption, found that the state law served as "an obstacle to the accomplishment and execution of the full purposes and objectives of Congress," as it "undermines the intended purpose and 'natural effect' of at least three provisions of the federal Act, namely, its delegation of effective discretion to the President to control economic sanctions against Burma, its limitation of sanctions solely to United States persons and new investment, and its directive to proceed diplomatically in developing a comprehensive, multilateral strategy towards Burma."[26]

After rejecting the state's argument that the law could not be preempted because it was based on the state's spending power, the Court found that the law lacked the flexibility inherent in the federal statute: the former had stringent application requirements and no termination provision, while the latter authorized the President to lift federal measures in certain circumstances, allowed him to prohibit new investment based on his own findings, and provided waiver authority with regard to

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[24] The Supreme Court narrowed the ruling of the First Circuit Court of Appeals, which had held that the state law infringed the federal foreign affairs power, violated the Foreign Commerce Clause, and was preempted by federal law. National Foreign Trade Council v. Natsios, 181 F.3d 38 (1st. Cir. 1999). The district court ruled that the statute was an unconstitutional infringement on the federal foreign affairs powers. National Foreign Trade Council v. Baker, 26 F.Supp.2d 287 (D.Mass.1998).

[25] *Compare, e.g.*, Bd. of Trustees of Employees' Retirement System v. Mayor of Baltimore City, 317 Md. 72, 562 A.2d 720 (Md. 1989), *cert. denied sub nom.* Lubman v. Mayor and City Council of Baltimore, 493 U.S. 1093 (1990)(municipal ordinance requiring city pension funds to divest their holding in companies doing business in South Africa upheld in face of preemption, foreign affairs and Foreign Commerce Clause challenges), *with* Springfield Rare Coin Galleries v. Johnson, 115 Ill. 2d 221, 503 N.E. 2d 300, 307 (Ill. 1986)(state could not use its constitutional taxing power to exempt from state taxes coins and currencies issued by the United States or any foreign country except South Africa; creation of tax classification based on political and social policies of a single foreign nation impermissibly intruded into regulation of foreign affairs; "regulations which amount to embargoes or boycotts" found to be "outside the realm of permissible State activity"). Like the federal Burma law implicated in *Crosby*, the Comprehensive Anti-Apartheid Act of 1986, cited in *Bd. of Trustees*, *supra*, did not expressly preempt sub-federal laws.

[26] Crosby v. National Foreign Trade Council, 530 U.S. 363, 373-74 (2000).

all sanctions imposed in the statute.[27] The state law was also found to exceed federal authorities in covering most state contracts, foreign and domestic firms, and firms already operating in Burma, whereas the federal law imposed sanctions solely on U.S. persons, authorized a prohibition on new investment only, and exempted purchase and sales contracts from any ban.[28] Finally, the state law had impeded the President's ability to pursue the multilateral strategy envisioned in the federal act, the Court citing formal protests from U.S. trading partners, World Trade Organization complaints, and the distraction caused by the state law in discussions with foreign countries regarding the situation in Burma.[29]

Finally, the Court rejected the state's argument that in not expressly preempting the state law Congress had implicitly permitted it, the state noting that Congress was aware of the Massachusetts law when in adopted the federal Burma statute in 1996. The Court found that "[a] failure to provide for preemption expressly may reflect nothing more than the settled character of implied preemption doctrine that the courts will dependably apply" and, citing *Hines*, that "in any event, the existence of a conflict cognizable under the Supremacy Clause does not depend on express recognition that federal and state law may conflict."[30] The Court found that in this case Congress' silence was ambiguous and as such insufficient to warrant the state's inference of congressional intent.[31]

More recently, in *American Insurance Association v. Garamendi*, 539 U.S. 396 (2003), the Supreme Court reaffirmed the *Zschernig* Court's finding of a dormant federal foreign affairs power. In a 5-4 vote, the Court struck down a California law, the Holocaust Victim Insurance Relief Act, which required any insurer doing business in the state to disclose information about all life insurance policies issued in Europe during the Nazi regime. An executive agreement with Germany signed by the President provided that the International Commission on Holocaust Era Insurance Claims serve as the sole vehicle for voluntary insurance claims to reduce litigation between foreign nationals and German firms. Despite the lack of a specific preemption clause, the Court, citing the "kid glove" approach chosen by the executive branch evident in the German agreement, as well as in similar agreements with Austria and France, and in executive branch statements supporting this approach, determined that there was a "clear conflict" between the policies adopted by the executive and the "iron fist" that California sought to use.[32] The Court made clear that state law could be preempted by the President's exercise of his independent constitutional authority to conduct foreign affairs, noting that Congress had not acted on the matter addressed in the California law and that given this independent

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[27] *Id.* at 374-77.

[28] *Id.* at 377-80.

[29] *Id.* at 380-86.

[30] *Id.* at 387-88.

[31] *Id.* at 388.

[32] American Insurance Association v. Garamendi, 539 U.S. 396, 425, 427 (2003).

authority, "congressional silence is not to be equated with congressional disapproval."[33]

In *National Foreign Trade Council* v. *Giannoulias*, the first lower federal court decision since *Crosby* and *Garamendi* to address a state sanctions law, the U.S. District Court for the Northern District of Illinois held the Illinois Sudan Act unconstitutional and permanently enjoined its enforcement.[34] At issue in the February 2007 decision was a statute that placed restrictions both on the deposit of state funds and the investment of state and municipal pension assets. The law amended the Deposit of State Moneys Act to prohibit the Illinois Treasurer from investing state funds in commercial instruments of Sudan and so-called "forbidden entities" and also from depositing state funds into any financial institution that did not certify that it "has implemented policies and practices that require loan applicants to certify that they are not 'forbidden entities.'" The category of "forbidden entities" included any company that had not certified that it did not own or control certain Sudan-related property or assets and did not engage in certain Sudan-related transactions.

The statute also amended the Illinois Pension Code to prohibit the fiduciary of any pension fund established under the Code from investing in any entity unless the company managing the funds' assets certified that the managing company had not transferred any assets of the Illinois retirement system or pension fund to a forbidden entity. The statute ultimately required that none of the assets of the system or fund be invested in "forbidden entities" by the end of July 2007. For purposes of the pension amendments, the term "forbidden entity" included not only the firms described above, but also any publicly traded company that owned or controlled Sudan-related property or assets or engaged in other Sudan-related transactions, and any non-publicly traded company that failed to submit to the fund's managing company a sworn affidavit averring that the company did not own or control any Sudan-related property and did not transactions business in Sudan. The statute was challenged on preemption, foreign affairs, and foreign commerce grounds.

In reaching its decision, the court set out federal law regarding Sudan, beginning with a 1997 Executive Order signed by President Clinton freezing Sudanese property in the United States and prohibiting various transactions between the United States and Sudan, and continuing with three subsequent public laws: the Sudan Peace Act (2002), the Comprehensive Peace in Sudan Act (2004), and the Darfur Peace and Accountability Act (2006). None of these statutes contains a provision addressing state law preemption and, as noted earlier, a "no preemption" provision in the House-passed version of the 2006 enactment was not included in the final statute.

Addressing the statutory preemption argument, the court held that, with respect to the amendment to the Deposit of State Moneys Act, the statute's "lack of flexibility, extended geographic reach, and impact on foreign entities interferes with the national government's conduct of foreign affairs," and was thus preempted by

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[33] *Id.* at 429.

[34] National Foreign Trade Council v. Giannoulias, No. 06 C 4251, slip op., 2007WL 627630 (N.D. Ill. Feb. 23, 2007), available at [http://howappealing.law.com/NFTC.pdf].

federal law.[35] On the other hand, the pension amendments were found not to be preempted, since federal law did not expressly address divestment, and, in the court's view "the potential effects of pension divestment on the national government's ability to conduct foreign policy are highly attenuated."[36] The court stated that it had not been presented with evidence "suggesting that these pension funds' inability to purchase the securities of such companies would be in any way likely to affect their decision to do business in that country" and thus, citing *Crosby*, it had not been shown "that pension fund divestment stands as an 'obstacle to the accomplishment and execution of the full purposes and objectives of Congress' with regard to Sudan policy."[37]

Regarding foreign affairs preemption, the court found scant prior case law on the issue, but concluded that the amendments to the Deposit of State Moneys Act "would have an impact on the national government's ability to deal with Sudan that is at least equal to or greater than the impact of the state laws in *Zschernig* and *Garamendi*."[38] The court considered that the amendments might cause multinational companies to pull out of Sudan resulting in a "real and direct" effect on Sudan's economy, and that they thus clearly had "more than an incidental or indirect effect" in Sudan.[39] Noting as well the amendments' "substantive and direct impact on the national government's ability to carry out the flexible and measured approach to Sudanese relations that Congress and the president have created," the court held that they interfered impermissibly with the federal government's power to conduct the nation's foreign affairs.[40] At the same time, the court held that the pension amendments did not improperly intrude on the federal foreign affairs authority, finding that they did not place the same kind of pressure on firms to sever business ties with that country that flowed from the banking amendments and thus were not likely to affect firms' willingness to do business in Sudan.[41]

Because the court had already found the banking amendments unconstitutional on two grounds, it did not consider them in light of the Foreign Commerce Clause. Nevertheless, it did find that "there is little doubt that the conduct the Illinois Sudan Act seeks to proscribe involves foreign commerce"[42] and that "[w]ithout the protection of the market participant exception, the amendment to the Pension Code

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[35] *Giannoulias*, slip op. at 17. Because of its adverse holdings on Sudan-related preemption and the foreign affairs infringement, the court did not address whether the banking amendments were preempted by the National Bank Act. *Id.* at 32-33.

[36] *Id.* at 17.

[37] *Id.* at 17-18.

[38] *Id.* at 22.

[39] *Id.* at 23.

[40] *Id.*

[41] *Id.* at 23-26.

[42] *Id.* at 27.

violates the Foreign Commerce Clause."[43] The court found that to the extent that the state was exercising control over municipal pension funds, however, it was acting as a market regulator and that the market participant doctrine, even if it were determined that the doctrine had a role in Foreign Commerce Clause cases, was inapplicable in this situation.[44] With respect to the state's control of its own pension funds, the court held that, even were it to find that the amendment was constitutional if only applied to these funds, it could not sever the unconstitutional portion of the statute and thus struck down the pension amendment as a whole.[45]

Defendants in the case requested and were granted an extension until April 30, 2007, to file a notice of appeal.[46] The motion for the extension noted that the Illinois General Assembly was currently contemplating legislation that would repeal or modify the state law at issue and that any such legislation could render the appeal moot or otherwise materially affect a decision on the issue.[47]

Some Future Prospects

Where state or local sanctions are held to be preempted by federal statute, Congress could choose expressly to authorize such measures in new legislation.[48] It is also possible that a sub-national sanctions law could be written so as not to conflict with a federal enactment. Where Congress has not enacted sanctions against a particular country, state or local sanctions directed at that jurisdiction may be challenged on dormant foreign affairs or Foreign Commerce Clause grounds, given that *Crosby* did not address, and thus did not foreclose or limit the use of, these constitutional arguments. At the same time, questions remain as to the outcome of these arguments in a particular case — among them, whether in a Foreign Commerce Clause challenge legislative silence would be construed as implied authorization of a state sanctions law or, instead, as a manifestation of an overriding federal policy

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[43] *Id.* at 31.

[44] *Id.* at 29-30.

[45] *Id.* at 31-32.

[46] Notification of Docket Entry, National Foreign Trade Council v. Madigan, (N.D. Ill. Mar. 27, 2007)(No. 06 CV 4251).

[47] Defendants' Agreed Emergency Motion for Extension of Time to File Notice of Appeal Pursuant to Federal Rule of Appellate Procedure 4(a)(5), National Foreign Trade Council v. Giannoulias (N.D. Ill. Mar. 26, 2007)(No. 06 CV 4251).

[48] A sub-federal sanctions law enacted under a congressional authorization could be challenged on statutory preemption grounds as having exceeded the scope of the authorization. Were it found to be included, however, negative inferences to be drawn from the dormant Foreign Commerce Clause and dormant foreign affairs power may also be removed by virtue of the federal enactment. Moreover, *Garamendi* does not preclude that such a state law would prevail over an exercise of independent executive foreign affairs power. *See* 539 U.S. at 427; note *Barclays Bank*, 512 U.S. at 328-30; Hamdan v. Rumsfeld, 126 S.Ct. 2749, 2774, n.23 (2006); and *id.* at 2799-804 (Kennedy, J., concurring).

that a particular country not be subject to restrictive U.S. measures.[49] Whether the market participant exception applies in Foreign Commerce Clause cases also remains unclear.

Where a state law is challenged as intruding into the federal foreign affairs power, *Garamendi* suggests that executive agreements or statements might preempt any state action, despite a lack of specific agreement language showing the intent to do so.[50] At the same time, the Court recommended following Justice Harlan's standard from the *Zschernig* case as a minimum threshold for foreign affairs preemption, that is, that the state legislation should "produce something more than incidental effect in conflict with express foreign policy of the National Government."[51]

110th Congress Legislation

Two bills introduced in the 110th Congress contain provisions in support of state divestment measures related to Sudan. H.R. 180 (Lee), the Darfur Accountability and Divestment Act of 2007, introduced January 4, 2007, provides that "Congress recognizes and supports ... States and cities that have divested or are in the process of divesting State and city funds from companies that conduct business operations in Sudan" (§ 3) and contains a non-preemption provision similar to that contained in House-passed H.R. 3127, 109th Cong., discussed earlier.[52] In addition, S. 831 (Durbin), the Sudan Divestment Authorization Act of 2007, provides, at § 5, that "any State may adopt measures to prohibit any investment of State assets in the Government of Sudan or in any company with a qualifying business relationship with Sudan during any period in which the Government of Sudan, or the officials of such government" are subject to federal sanctions, and states that the provision would

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[49] As shown in *Crosby* in the context of statutory preemption, an ambiguous congressional silence does not warrant an inference of implied permission of a state law where there exists considerable evidence of a conflict between the state and federal enactments.

[50] *See Garamendi*, 539 U.S. at 424-25. The dissent would have left the California law intact absent a clear statement or formal expression by the federal government disapproving it. *See id.* at 430.

[51] *See id.* at 420. Applying principles ordinarily used in statutory preemption analysis, Justice Souter suggests that a state law should be preempted under field preemption with or without action by the national government if the state acts in a domain of foreign affairs not traditionally allocated to it; in the event of conflict between the federal foreign policy interest and an act of a state within its sphere of "traditional competence" in foreign affairs, a balancing test between the two interests might occur. *Id.* at 420, n.11. The Court does not establish a precise threshold, although, citing *Boyle v. United Technologies Corp.*, 487 U.S. 500, 507-508 (1988), it suggests that, "in an area of uniquely federal interest," "[t]he conflict with federal policy need not be as sharp as that which must exist for ordinary preemption." For additional discussion of *Garamendi*, *see* Constitution Annotated, *supra* note 4, at 13-14.

[52] H.R. 6140, the Darfur Accountability and Divestment Act of 2006 (Lee), introduced September 21, 2006, also included such a provision.

apply to state legislation enacted before, on, or after the date of enactment.[53] In addition, the bill would express the sense of Congress that "States and other governmental entities should be permitted to provide for" Sudan-related divestment of certain State assets, and that a divestment measure authorized under § 5 of the bill would not violate the U.S. Constitution on foreign commerce, foreign affairs, or preemption grounds (§ 3).

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[53] The term "qualifying business relationship" is defined in the bill at § 4(3).

APPENDIX XVI

SERS AND PSERS HOLDINGS
IN COMPANIES TARGETED
FOR DIVESTMENT

SERS Holdings - Companies Engaged in Business with Terror Sponsoring States (HB 1085)

As of June 30, 2007

Company Name	Base Cost	Base Market Value	Base Unrealized Investment Gain/Loss
AGGREKO ORD 20P	2,953,332	3,792,212	838,880
ALCAN INC	N/A	8,553,908	4,224,145
ALCATEL LUCENT SPONSORED ADR	N/A	5,308,820	780,171
ALLIANZ SE (SOCIETAS EUROPEAE)	10,753,628	21,300,929	10,547,300
ALSTOM EUR14 (POST	4,593,661	4,934,146	340,485
ALSTOM EUR14 (POST	6,261,243	12,121,380	5,860,137
AMERICAN EXPRESS CO COM	N/A	5,270,923	271,444
AMR CORP DEL COM	N/A	619,629	(251,559)
AMR CORP DEL COM	N/A	6,918,855	366,250
ASIA SATELLITE TELECOMMUNICATN	5,808,040	7,082,682	1,274,642
ASTRAZENECA ORD USD0.25	7,000,717	7,112,015	111,297
ATLAS COPCO AB SER A NPV	2,457,666	12,928,528	10,470,862
BAE SYSTEMS ORD GBP0.025	12,134,520	15,785,669	3,651,149
BAKER HUGHES INC COM	N/A	3,586,112	610,300
BAKER HUGHES INC COM	N/A	10,701,336	3,032,023
BANCO BILBAO VIZCAYA	6,051,044	7,014,619	963,575
BANCO SANTANDER CENTRAL	6,651,770	13,664,317	7,012,547
BASF AG NPV	2,300,647	5,920,243	3,619,596
BAYER AG ORD NPV	12,260,334	12,603,423	343,089
BAYER AG ORD NPV	10,465,852	17,905,593	7,439,741
BAYERISCHE MOTOREN WERKE (BMW)	9,004,251	12,547,300	3,543,049
BAYERISCHE MOTOREN WERKE (BMW)	10,717,198	14,919,662	4,202,464
BG GROUP PLC ORD GBP0.10	13,561,310	16,646,987	3,085,677
BHARAT HEAVY ELECTRIC LIGHT	1,392,213	2,395,463	1,003,249
BHP BILLITON LTD	N/A	13,180,850	5,722,983
BHP BILLITON PLC USD0.50	3,110,887	9,978,003	6,867,116
BNP PARIBAS EUR2	6,008,106	9,504,762	3,496,656
BOEWE SYSTEC AG NPV	5,329,783	5,105,079	(224,704)
BP PLC ORD USD.25	10,717,315	11,493,376	776,061
BP PLC ORD USD.25	10,176,820	13,837,577	3,660,757
BP PLC ORD USD.25	9,353,406	13,829,314	4,475,908
BP PLC SPONSORED ADR	N/A	12,112,306	1,257,633
BRISTOL MYERS SQUIBB CO COM	N/A	4,327,026	958,267
CANON INC NPV	12,302,566	13,465,323	1,162,757
CANON INC NPV	9,638,197	15,716,373	6,078,176
CHEVRON CORPORATION COM	N/A	2,427,410	293,813
CHEVRON CORPORATION COM	N/A	17,598,915	4,531,360
CHINA PETE & CHEM CORP SPONS	N/A	5,727,132	2,964,092
CHINA PETROLEUM AND CHEMICAL	762,749	747,950	(14,799)
CHINA PETROLEUM AND CHEMICAL	1,607,517	4,135,855	2,528,338
CHINA PETROLEUM AND CHEMICAL	2,177,561	4,863,889	2,686,328
CNPC HONG KONG LTD ORD HK#0.01	1,847,623	1,938,214	90,590
CONOCOPHILLIPS	N/A	14,924,583	2,649,653
CONOCOPHILLIPS	N/A	18,400,400	4,323,496
CONTINENTAL AG NPV	3,375,692	3,657,041	281,349
CONTINENTAL AG SPONSOARED ADR	1,955,809	4,020,139	2,064,330
CRYOLIFE INC COM	156,484	239,644	83,160
CRYOLIFE INC COM	413,260	600,802	187,542
CUMMINS INC COM	N/A	1,502,786	605,510
DAELIM INDUSTRIAL CO KSWN 5000	866,703	1,330,501	463,798
DAIMLERCHRYSLER AG ORD NPV	9,723,584	11,881,178	2,157,594

Company Name	Base Cost	Base Market Value	Base Unrealized Investment Gain/Loss
DAIMLERCHRYSLER AG ORD NPV	N/A	4,945,964	2,232,004
DANIELI & C DI RISP EUR1.0	2,583,389	2,888,470	305,081
DELL INC COM	N/A	4,793,421	770,040
DEUTSCHE POST AG NPV (REGD)	N/A	1,799,750	294,343
DEUTSCHE POST AG NPV (REGD)	9,922,128	11,582,967	1,660,839
DEUTSCHE POST AG NPV (REGD)	7,158,719	14,579,867	7,421,149
DEVRO ORD 10P	N/A	590,258	(18,906)
DIGENE CORP	1,105,948	1,543,285	437,337
DOMINO PRINTING SCIENCES	4,129,881	5,840,093	1,710,212
E.ON AG NPV	N/A	4,528,801	1,367,534
E.ON AG NPV	4,348,116	15,194,225	10,846,109
EBARA Y50	N/A	501,048	97,631
ENGLOBAL CORP	181,005	208,008	27,003
ENGLOBAL CORP	367,552	789,750	422,198
ENI S P A SPONSORED ADR	N/A	12,505,698	2,816,734
ERICSSON (L.M.)	N/A	3,626,770	289,563
ERICSSON (L.M.)	9,364,528	10,011,375	646,847
ERICSSON (L.M.)	18,372,417	20,717,816	2,345,399
EXXON MOBIL CORP	N/A	33,371,379	4,854,139
EXXON MOBIL CORP	N/A	25,809,876	6,994,121
FAMILYMART Y50	N/A	2,006,006	(35,209)
FORTIS GROUP NPV	7,863,616	11,761,168	3,897,551
FORTIS GROUP NPV	3,813,981	9,310,142	5,496,161
FOSTER WHEELER LTD	N/A	65,592	1,021
FRANCE TELECOM EUR4	5,108,947	5,474,675	365,728
FRANCE TELECOM EUR4	12,279,262	12,812,144	532,882
GEA GROUP AG NPV	2,425,977	2,430,539	4,562
GENERAL ELEC CO COM	N/A	14,205,024	1,527,489
GIVAUDAN AG CHF10	861,126	866,824	5,698
GIVAUDAN AG CHF10	3,300,247	7,009,628	3,709,381
GS ENGINEERING & CONSTRUCTION	1,188,251	2,643,197	1,454,946
GS HOLDINGS CORP KRW5000	1,822,032	1,929,353	107,322
GS HOLDINGS CORP KRW5000	1,899,393	2,663,674	764,281
HALLIBURTON CO COM	3,492,054	3,754,290	262,236
HALLIBURTON CO COM	N/A	7,276,050	1,317,944
HOLCIM CHF2 (REGD)	1,567,526	1,811,047	243,521
HOLCIM CHF2 (REGD)	15,429,190	27,616,896	12,187,705
HONDA MOTOR CO NPV	9,308,856	9,619,823	310,967
HSBC HLDGS ORD USD0.50 (UK)	8,877,888	8,614,705	(263,183)
HSBC HLDGS ORD USD0.50 (UK)	2,060,238	2,004,705	(55,533)
HSBC HLDGS ORD USD0.50 (UK)	8,543,958	9,192,985	649,027
HSBC HLDGS USD0.50 HONGKONG	N/A	5,639,311	974,014
HSBC HLDGS USD0.50 HONGKONG	3,655,544	8,566,368	4,910,824
HYNIX SEMICONDUCTOR INC	3,081,011	3,162,095	81,084
HYUNDAI ENGR & CONSTR CO	2,763,809	2,564,541	(199,268)
HYUNDAI MOTOR CO 2ND PREF	505,259	489,006	(16,254)
HYUNDAI MOTOR CO PREF KSWN5000	1,875,516	1,737,512	(138,004)
HYUNDAI MTR CO KSWN5000	1,057,994	1,124,274	66,280
HYUNDAI MTR CO KSWN5000	3,842,368	4,400,226	557,859
IMPREGILO SPA NPV	4,715,258	5,123,616	408,358
INDIAN OIL CORP INR10	N/A	1,227,484	207,588
ING GROEP N.V. CVA EUR0.24	7,015,864	9,853,663	2,837,799
ING GROEP N.V. CVA EUR0.24	5,128,833	13,673,736	8,544,903
INGERSOLL-RAND COMPANY LTD COM	N/A	6,321,484	1,830,754
INTERTEK GROUP PLC ORD GBP0.01	N/A	3,467,147	799,458
INTESA SANPAOLO EUR0.52	5,046,726	5,088,407	41,681

Company Name	Base Cost	Base Market Value	Base Unrealized Investment Gain/Loss
INTESA SANPAOLO EUR0.52	5,798,985	5,990,968	191,983
JAPAN TOBACCO INC Y50000	6,908,398	11,840,480	4,932,081
KBC GROUPE NPV	8,519,395	10,244,079	1,724,684
KEPPEL LD STK SG$0.50	2,326,335	2,750,662	424,327
LAFARGE SA EUR4.00	5,673,671	8,297,841	2,624,170
LINDE AG NPV	8,677,438	9,637,067	959,629
LLOYDS TSB GROUP ORD GBP0.25	12,500,755	12,490,875	(9,880)
LOCKHEED MARTIN CORP COM	N/A	8,880,934	1,424,520
L'OREAL EUR0.2	10,939,660	13,399,347	2,459,687
LUKOIL OIL CO SPON ADR REP 4	443,891	453,390	9,499
LUKOIL OIL COMPANY ADR REP 4	1,331,493	1,198,626	(132,867)
LUKOIL OIL COMPANY ADR REP 4	N/A	955,749	116,646
MARATHON OIL CORP	N/A	8,734,878	2,252,803
MARATHON OIL CORP	N/A	9,545,632	4,004,371
MATSUSHITA ELEC INDL CO Y50	N/A	357,426	(50,871)
MEDIOBANCA SPA EUR0.5	5,597,899	6,153,552	555,654
MEDTRONIC INC COM	6,331,000	6,741,800	410,800
MITSUBISHI CORP NPV	N/A	2,772,759	694,245
MITSUBISHI ELECTRIC CORP Y50	9,585,283	14,083,696	4,498,413
MITSUBISHI ESTATE CO NPV	9,329,310	10,579,376	1,250,065
MITSUBISHI ESTATE CO NPV	3,212,146	5,805,093	2,592,948
MITSUBISHI ESTATE CO NPV	17,429,902	21,473,420	4,043,519
MITSUBISHI HEAVY IND NPV	11,905,086	15,795,020	3,889,934
MITSUBISHI UFJ FINANCIAL GROUP	9,233,301	8,039,192	(1,194,109)
MITSUBISHI UFJ FINANCIAL GROUP	4,299,317	3,876,432	(422,885)
MITSUBISHI UFJ FINANCIAL GROUP	N/A	1,502,147	(205,290)
NEC CORP NPV	N/A	1,176,200	(71,367)
NESTLE SA CHF1 (REGD)	11,493,448	12,737,435	1,243,987
NESTLE SA CHF1 (REGD)	7,615,420	13,790,649	6,175,230
NESTLE SA CHF1 (REGD)	12,095,773	18,517,188	6,421,416
NESTLE SA CHF1 (REGD)	18,808,804	28,130,339	9,321,535
NOKIA (AB) OY EUR0.06	4,832,185	6,829,502	1,997,317
NORDEA AB EUR0.39632	4,035,046	13,926,732	9,891,687
NORSK HYDRO A S SPONSORED ADR	N/A	9,284,302	3,813,419
NORSK HYDRO AS	55,928	66,590	10,662
NOVARTIS AG CHF0.50 (REGD)	9,220,083	8,557,441	(662,642)
NOVARTIS AG CHF0.50 (REGD)	12,570,616	12,442,632	(127,984)
NOVARTIS AG CHF0.50 (REGD)	N/A	3,958,245	(44,569)
NOVARTIS AG CHF0.50 (REGD)	12,153,170	15,343,211	3,190,041
OIL & NATURAL GAS INR10	N/A	2,195,585	337,574
OIL CO LUKOIL SPON ADR	2,380,056	2,299,466	(80,590)
OIL CO LUKOIL SPON ADR	1,366,557	1,886,820	520,263
OIL CO LUKOIL SPON ADR	N/A	8,130,540	1,441,428
OIL CO LUKOIL SPON ADR	8,445,196	12,566,145	4,120,949
OIL CO LUKOIL SPON ADR	N/A	5,142,263	4,775,359
OSAKA GAS CO Y50	3,751,096	4,502,304	751,208
PETRO-CANADA	N/A	6,597,156	1,913,365
PETROCHINA CO 'H'CNY1	1,997,473	2,667,110	669,637
PETROCHINA CO 'H'CNY1	1,383,470	2,543,333	1,159,863
PETROCHINA CO 'H'CNY1	N/A	12,936,226	8,092,634
PHARMION CORPORATION	892,784	612,321	(280,462)
PORSCHE AG NON VTG PRF NPV	5,566,913	15,502,864	9,935,950
POSCO KRW5000	913,576	2,160,136	1,246,560
POSCO KRW5000	4,333,205	7,504,792	3,171,587
PROCTER & GAMBLE CO COM	N/A	4,081,317	30,592
RAYTHEON CO COM NEW	2,349,162	2,393,794	44,632

Company Name	Base Cost	Base Market Value	Base Unrealized Investment Gain/Loss
RAYTHEON CO COM NEW	N/A	3,302,428	166,922
REGUS GROUP ORD GBP0.05	2,249,014	3,488,641	1,239,628
RENAULT REGIE NATIONALE DES	9,901,814	14,797,424	4,895,610
REPSOL YPF SA EUR1	6,239,024	13,906,843	7,667,819
RIO TINTO ORD GBP0.10	N/A	8,997,119	2,430,258
RIO TINTO ORD GBP0.10	13,586,071	19,810,018	6,223,947
ROCHE HLDG AG CHF1	3,269,393	3,228,688	(40,705)
ROCHE HLDG AG GENUSSCHEINE NPV	5,315,984	11,449,331	6,133,347
ROLAND DG CORP JPY50	1,201,109	1,871,169	670,060
ROLLS ROYCE GROUP ORD GBP0.20	3,761,054	15,375,017	11,613,964
ROYAL DUTCH SHELL A SHS	9,108,508	13,193,076	4,084,568
ROYAL DUTCH SHELL 'B' SHS	N/A	4,395,316	779,821
ROYAL DUTCH SHELL 'B' SHS	9,129,916	15,126,127	5,996,211
SAIPEM EUR1	N/A	6,162,625	2,268,908
SAMPO OYJ SER'A'NPV	3,732,684	3,995,471	262,786
SAMPO OYJ SER'A'NPV	N/A	5,199,281	1,337,850
SAMSUNG ELECTRONICS CO PFD	3,730,475	3,326,490	(403,985)
SAMSUNG ELECTRS KRW5000	4,391,143	4,459,876	68,733
SAMSUNG ELECTRS KRW5000	3,213,615	3,298,348	84,732
SAMSUNG ELECTRS KRW5000	7,201,824	8,022,263	820,439
SAMSUNG ELECTRS LTD GDR 1995	6,265,904	20,746,376	14,480,472
SAMSUNG FIRE & MARINE KRW500	1,290,658	2,409,617	1,118,959
SAMSUNG FIRE & MARINE KRW500	1,765,112	4,157,635	2,392,523
SAMSUNG HEAVY KSWN5000	2,729,466	4,758,254	2,028,788
SASOL LTD SPONSORED ADR	N/A	3,220,932	623,935
SASOL NVP	2,899,214	3,072,768	173,554
SASOL NVP	5,272,816	5,505,053	232,237
SCHERING PLOUGH CORP COM	N/A	5,284,765	1,407,303
SCHINDLER HLDG AG PTG CERT	3,884,597	4,888,670	1,004,073
SCHINDLER-HLDG AG CHF0.1	1,857,943	6,868,313	5,010,370
SCHLUMBERGER LTD COM	12,226,049	15,017,392	2,791,343
SCHLUMBERGER LTD COM	N/A	15,900,768	6,784,569
SIEMENS AG NPV REGD	7,505,241	7,603,000	97,759
SIEMENS AG NPV REGD	9,322,066	17,519,383	8,197,317
SIEMENS INDIA INR2	2,237,920	3,464,297	1,226,377
SK KAKEN CO Y50	1,050,917	1,260,942	210,025
SKF AB SER B NPV (POST SPLIT)	1,088,331	2,256,195	1,167,864
SONY CORP NPV	N/A	2,493,330	544,773
SONY CORP NPV	3,658,987	6,264,083	2,605,096
STANDARD CHARTERED ORD USD0.50	5,236,394	5,632,492	396,098
STARWOOD HOTELS & RESORTS COM	6,354,105	5,982,644	(371,461)
STARWOOD HOTELS & RESORTS COM	1,342,863	1,281,037	(61,826)
STARWOOD HOTELS & RESORTS COM	N/A	1,078,111	(57,975)
STATOIL ASA NOK2.50	N/A	2,365,066	469,799
STATOIL ASA NOK2.50	2,373,150	2,971,244	598,094
STATOIL ASA SPONSORED ADR	N/A	8,146,327	2,246,365
SUMITOMO MITSUI GR NPV	20,501,934	19,071,218	(1,430,716)
SUMITOMO MITSUI GR NPV	N/A	3,362,288	(371,828)
SWISS REINSURANCE CHF0.1	9,485,354	9,667,079	181,725
SWISS REINSURANCE CHF0.1	11,522,355	14,518,514	2,996,159
SYNGENTA AG CHF2.30000	2,048,788	2,086,755	37,967
SYNGENTA AG CHF2.30000	N/A	9,929,649	2,395,324
SYNTHES INC COM ACCREDITED	2,355,419	2,182,285	(173,134)
SYNTHES. INC CHF0.001(POST	527,152	528,341	1,189
TECHNIP SA EUR	7,858,205	10,623,365	2,765,160
TEMENOS GROUP AG CHF5 (REGD)	4,062,920	5,699,608	1,636,688

Company Name	Base Cost	Base Market Value	Base Unrealized Investment Gain/Loss
TENARIS S AUSD1	2,860,778	2,993,157	132,379
TENARIS SA SPONSORED ADR	2,307,130	2,403,936	96,806
TENARIS SA SPONSORED ADR	1,462,135	1,977,984	515,849
TEREX CORP NEW	N/A	623,144	113,260
TEREX CORP NEW	185,439	353,655	168,216
TOTAL SA ADR	N/A	18,285,284	4,358,701
TOTAL SA EUR2.5	10,922,161	13,054,017	2,131,856
TOTAL SA EUR2.5	13,226,408	20,557,228	7,330,820
TOTAL SA EUR2.5	3,631,215	11,271,216	7,640,000
TOYOTA MOTOR CORP NPV	N/A	1,425,317	125,903
TUI AG NPV (REGISTERED)	2,368,887	2,452,344	83,456
TUPRAS(T PETR REF) TRY1	2,045,269	2,172,959	127,689
TUPRAS(T PETR REF) TRY1	1,427,371	2,120,018	692,647
TUPRAS(T PETR REF) TRY1	N/A	9,729,175	4,492,383
UBS AG CHF0.1 (POST	4,567,377	13,493,734	8,926,356
UBS AG CHF0.1 (POST	12,377,640	23,965,099	11,587,459
UNILEVER NV CVA EUR0.16	N/A	3,345,050	702,585
UNILEVER NV CVA EUR0.16	16,786,217	24,130,094	7,343,877
UNILEVER PLC ORD GBP0.031111	7,803,615	16,099,338	8,295,722
VESTAS WIND SYSTEM DKK1	N/A	4,308,755	2,650,324
VESTAS WIND SYSTEM DKK1	2,882,748	14,947,240	12,064,492
VINCI EUR2.50 (POST SUBDIVISIO	7,814,757	10,508,874	2,694,117
WEATHERFORD INTERNATIONAL LTD	N/A	17,339,836	5,862,293
WYETH	N/A	5,840,025	105,901
XEROX CORP COM	N/A	763,365	(22,754)
XEROX CORP COM	N/A	10,092,154	1,274,130
Grand Totals		**1,913,076,759**	**557,582,933**

SERS Fund Total Equity Assets	**18,300,000,000**
SERS Exposure as a Percent of Total Equity Assets	**10.5%**
SERS Fund Total Assets	**34,800,000,000**
SERS Exposure as a Percent of Total Assets	**5.5%**

N/A: Cost data on investments in commingled funds is not available to investors.

SERS Investment Detail - Sudan Exposure (HB 1140)

As of June 22, 2007

Company Name	Base Cost	Base Market Value	Base Unrealized Investment Gain/Loss
Category One: Highest Offenders			
ALSTOM EUR14 (POST	4,593,661	4,739,347	145,687
ALSTOM EUR14 (POST	6,261,243	11,642,832	5,381,588
BHARAT HEAVY ELECTRIC LIGHT	1,392,213	2,239,430	847,216
CHENNAI PETRO CP INR10	780,222	900,352	120,131
CHINA PETROLEUM AND CHEMICAL	2,263,752	5,292,838	3,029,086
CHINA PETROLEUM AND CHEMICAL	1,607,517	4,329,240	2,721,723
CNPC HONG KONG LTD ORD HK#0.01	1,847,623	2,027,113	179,489
PETROCHINA CO 'H'CNY1	1,490,877	2,789,744	1,298,867
PETROCHINA CO 'H'CNY1	1,997,473	2,714,751	717,278
PETRONAS CAPITAL BDS USD1000	11,788,061	11,471,347	(316,715)
	34,022,643	48,146,994	14,124,351
Category Two: Ongoing Engagement			
PETROLEO BRASILEIRO SA	3,993,848	7,492,086	3,498,238
PETROLEO BRASILEIRO SA ADR	6,482,654	14,447,281	7,964,627
ROLLS ROYCE GROUP 'B'SHS	165,066	168,128	3,062
ROLLS ROYCE GROUP ORD GBP0.20	3,761,054	15,506,405	11,745,351
SCHLUMBERGER LTD COM	12,226,049	15,770,560	3,544,511
TOTAL SA EUR2.5	13,226,408	19,914,267	6,687,860
TOTAL SA EUR2.5	3,631,215	10,918,690	7,287,475
TOTAL SA EUR2.5	10,922,161	12,645,731	1,723,570
	54,408,455	96,863,148	42,454,693
Grand Totals		**145,010,141**	**56,579,044**

PSERS Holdings - Companies Engaged in Business with Terror Sponsoring States (HB 1087)
As of June 30, 2007

Company Name	Base Cost	Base Market Value	Base Unrealized Investment Gain/Loss
3M CO	31,353,975	47,148,147	15,794,172
3M CO	911,615	1,017,526	105,911
ABB LTD (INDIA)INR2 (POST	734,790	1,262,777	527,987
ABB LTD CHF2.50 (REGD)	30,554,642	66,741,481	36,186,839
ACS ACTIVIDADES CO EUR0.5	2,947,441	4,715,262	1,767,821
AGFA GEVAERT NV ORD NPV	952,945	1,164,444	211,499
AGGREKO ORD 20P	1,318,208	1,642,305	324,096
AGGREKO ORD 20P	837,716	1,119,602	281,885
AIR FRANCE KLM EUR8.5	18,834,952	29,354,167	10,519,215
AISIN SEIKI CO Y50	1,943,273	2,450,334	507,061
ALCAN INC	8,740,463	18,153,134	9,412,671
ALCATEL LUCENT EUR2 SER'A'	324,048	420,561	96,513
ALLIANZ SE (SOCIETAS EUROPEAE)	87,430,381	111,362,048	23,931,667
ALSTOM EUR14 (POST	1,032,752	1,405,370	372,618
AMEC ORD 50P	1,477,433	1,534,491	57,058
AMEC ORD 50P	597,705	1,360,888	763,183
AMERICAN EXPRESS CO COM	25,238,378	52,992,587	27,754,209
AMR CORP DEL COM	124,237	121,210	-3,027
AON CORP COM	5,091,892	8,998,976	3,907,085
ASIA SATELLITE TELECOMMUNICATN	284,319	335,691	51,372
ASTRAZENECA ORD USD0.25	46,999,060	44,142,034	-2,857,026
ASTRAZENECA ORD USD0.25	44,024,558	41,928,476	-2,096,082
ATLAS COPCO AB	685,156	682,588	-2,568
ATLAS COPCO AB SER A NPV	14,195,213	15,282,060	1,086,846
ATLAS COPCO AB SER 'B' NPV	3,471,210	3,388,947	-82,263
ATLAS COPCO AB SER'B'NPV (POST	8,706,293	33,763,876	25,057,583
AUSTRALIA & NEW ZEALAND BANK	16,955,406	27,725,779	10,770,373
BAE SYSTEMS ORD GBP0.025	3,734,513	4,011,959	277,446
BAE SYSTEMS ORD GBP0.025	26,054,489	34,970,683	8,916,193
BAKER HUGHES INC COM	12,866,317	25,980,690	13,114,373
BANCO DE SABADELL SA NEW	4,277,807	4,078,869	-198,939
BANCO SANTANDER CENTRAL	52,762,283	68,385,133	15,622,850
BANK OF CHINA LTD CNY1	3,015,748	2,923,189	-92,559
BARCLAYS ORD GBP0.25	44,920,897	61,378,744	16,457,847
BASF AG NPV	32,602,318	58,430,749	25,828,431
BAYER AG ORD NPV	12,237,031	19,208,463	6,971,431
BAYER AG ORD NPV	11,837,778	17,551,615	5,713,837
BBVA EUR0.49	36,826,348	56,734,227	19,907,880
BEIERSDORF AG NPV	1,778,114	2,193,415	415,302
BG GROUP PLC ORD GBP0.10	7,246,974	8,662,960	1,415,986
BG GROUP PLC ORD GBP0.10	25,841,105	51,342,456	25,501,351
BHARAT HEAVY ELECTRIC LIGHT	4,569,367	6,467,371	1,898,004
BHP BILLITON LIMITED	41,282,137	84,532,048	43,249,911
BHP BILLITON LTD	7,197,028	9,679,500	2,482,472
BHP BILLITON PLC USD0.50	36,512,267	69,907,709	33,395,442
BHP BILLITON PLC USD0.50	14,004,297	18,248,296	4,243,999
BLUE NILE INC	709,309	1,214,040	504,731
BNP PARIBAS ARBITRAGE ISSUANCE	427,703	416,444	-11,259
BNP PARIBAS EUR2	29,646,054	49,665,389	20,019,335
BOEING CO COM	20,481,461	54,462,812	33,981,352
BOSCH CORP JPY50	1,309,955	1,289,336	-20,619

Company Name	Base Cost	Base Market Value	Base Unrealized Investment Gain/Loss
BP PLC ORD USD.25	7,638,362	8,020,792	382,429
BP PLC ORD USD.25	147,634,309	168,338,155	20,703,846
BP PLC SPONSORED ADR	6,587,853	7,113,004	525,151
BRISTOL MYERS SQUIBB CO COM	35,480,670	44,677,251	9,196,581
BRITISH AIRWAYS ORD 25P	7,334,329	10,558,617	3,224,288
CAMERON INTL CORP COM	6,525,924	9,531,239	3,005,315
CANON INC ADR REPSTG 5 SHS	823,507	1,187,460	363,953
CANON INC NPV	52,211,929	79,522,567	27,310,638
CARLSBERG 'B' DKK20	5,355,388	6,828,089	1,472,701
CARPHONE WAREHOUSE ORD GBP0.10	2,207,364	2,400,987	193,622
CASIO COMPUTER CO Y50	1,430,581	1,247,924	-182,656
CHEVRON CORPORATION COM	76,809,322	144,871,403	68,062,081
CHINA PETE & CHEM CORP SPONS	2,420,263	3,349,200	928,937
CHINA PETROLEUM AND CHEMICAL	7,324,472	12,759,411	5,434,939
CHIYODA CO Y50	452,379	432,795	-19,584
CHIYODA CORP Y50	1,072,581	970,485	-102,096
CHIYODA INTEGRE CO JPY50	2,189,392	2,015,061	-174,331
COCA COLA CO COM	52,223,928	75,613,843	23,389,916
COMMERZBANK AG NPV	27,241,413	31,842,733	4,601,321
COMPAGNIE GENERALE DE	1,413,595	2,109,419	695,824
COMPASS GROUP ORD GBP0.10	1,335,880	2,233,700	897,819
COMPASS GROUP ORD GBP0.10	8,810,511	11,141,957	2,331,446
CONOCOPHILLIPS	49,632,961	103,912,334	54,279,373
CONTINENTAL AG NPV	4,268,278	6,439,139	2,170,861
COSMO OIL	1,153,832	1,293,980	140,147
CREDIT AGRICOLE SA EUR3	29,100,293	35,294,259	6,193,967
CREDIT SUISSE GROUP CHF0.5000	62,416,108	87,778,768	25,362,660
CRYOLIFE INC COM	1,669,052	2,052,328	383,275
CUMMINS INC COM	2,681,872	9,109,204	6,427,332
DAELIM INDUSTRIAL CO KSWN 5000	942,181	1,637,082	694,901
DAIHATSU MOTOR CO Y50	565,799	613,061	47,262
DAIMLERCHRYSLER AG ORD NPV	25,267,721	43,364,576	18,096,855
DANIELI & C EUR1	2,368,404	3,518,577	1,150,173
DELL INC COM	35,464,137	46,649,872	11,185,735
DEUTSCHE BANK AG ORD NPV REG	28,940,686	40,706,632	11,765,946
DEUTSCHE BK CONTINGENT CAP TR	1,653,960	1,620,300	-33,660
DEUTSCHE LUFTHANSA AG ORD NPV	1,470,200	2,240,218	770,018
DEUTSCHE LUFTHANSA AG ORD NPV	10,509,100	15,250,281	4,741,181
DEUTSCHE POST AG NPV	44,571,249	61,304,278	16,733,029
DEUTSCHE POSTBANK AG NPV	2,243,541	2,503,931	260,390
DEUTZ AG NPV	331,752	494,288	162,536
DEVRO ORD 10P	1,990,002	1,476,128	-513,874
DIGENE CORP	3,735,289	5,338,445	1,603,156
DONGFENG MOTOR GROUP CIE LTD	705,835	794,976	89,141
DOOSAN CO KRW5000	300,564	927,373	626,809
DOOSON INFRACORE CO LTD	3,709,299	4,709,556	1,000,258
E.ON AG NPV	85,799,814	126,805,702	41,005,888
E1 CORPORATION KRW5000	52,904	127,338	74,435
EASTMAN CHEM CO COM	2,885,911	4,555,465	1,669,553
EASTMAN KODAK CO COM	7,723,240	7,103,218	-620,022
EBARA Y50	1,815,691	1,938,686	122,995
ELECTRICITY GENERATING ALIEN	322,486	416,046	93,560
ELECTRICITY GENERATING THBH10	903,748	1,000,388	96,640
ELECTROLUX AB SER 'B' NPV	8,244,561	8,753,251	508,690
ENEL EUR1	6,970,704	8,331,249	1,360,545
ENI EUR1	50,271,618	67,067,090	16,795,472

Company Name	Base Cost	Base Market Value	Base Unrealized Investment Gain/Loss
ENI S P A SPONSORED ADR	6,555,594	7,372,465	816,871
ERICSSON (L.M.)	93,670,705	118,242,683	24,571,978
ERICSSON L M TEL CO ADR CL B	787,281	878,378	91,097
EXXON MOBIL CORP	173,616,213	378,793,021	205,176,808
FAMILYMART Y50	4,218,999	5,560,752	1,341,753
FIAT SPA EUR5	39,059,351	73,578,164	34,518,813
FINMECCICA SPA EUR 4.40	26,572,476	31,566,883	4,994,408
FLSMIDTH & CO A/S SER'B'DKK20	1,250,752	1,832,816	582,064
FLUOR CORP NEW COM	2,542,716	7,063,865	4,521,149
FORBO HLDGS AG CHF14 (REGD)	963,786	1,807,294	843,508
FORD MTR CO DEL COM PAR $0.01	15,260,562	12,739,514	-2,521,048
FORTIS GROUP NPV	7,145,142	12,172,603	5,027,461
FORTIS INC	762,358	884,330	121,972
FORTIS NPV	29,403,307	35,400,195	5,996,888
FOSTER WHEELER LTD	573,700	588,445	14,745
FOSTER WHEELER LTD SHS NEW	414,958	321,315	-93,644
FRANCE TELECOM EUR4	12,723,987	12,739,491	15,504
FUJI ELECTRIC HOLDINGS CO LT	1,465,215	1,561,262	96,047
GEA GROUP AG NPV	995,600	1,245,153	249,553
GENERAL ELEC CO COM	195,497,039	287,938,370	92,441,331
GIVAUDAN AG CHF10	13,936,741	31,463,357	17,526,615
GS ENGINEERING & CONSTRUCTION	2,450,240	3,625,126	1,174,886
HALLIBURTON CO COM	15,362,023	26,971,272	11,609,249
HEINEKEN HOLDING EUR1.6	12,620,422	20,742,764	8,122,342
HEINEKEN NV EUR1.60	11,433,554	17,809,284	6,375,730
HENKEL KGAA NON VTG PREF NPV	8,025,362	9,257,675	1,232,313
HOLCIM CHF2 (REGD)	7,485,715	9,904,197	2,418,482
HONDA MOTOR CO NPV	19,936,899	23,134,945	3,198,046
HSBC HLDGS ORD USD0.50 (UK)	103,482,107	109,608,795	6,126,688
HSBC HLDGS USD0.50 HONGKONG	6,320,877	7,128,682	807,805
HYNIX SEMICONDUCTOR INC	8,374,338	8,969,628	595,290
HYUNDAI HEAVY IND CO KRW5000	666,650	1,867,085	1,200,434
HYUNDAI MOTOR CO 2ND PREF	3,288,498	3,208,951	-79,547
HYUNDAI MTR CO KSWN5000	9,900,783	15,636,409	5,735,626
IMPREGILO SPA NPV	116,042	97,476	-18,566
ING GROEP N.V. CVA EUR0.24	54,751,287	78,073,767	23,322,481
INGERSOLL-RAND COMPANY LTD COM	6,231,106	13,446,579	7,215,472
INTESA SANPAOLO EUR0.52	20,588,485	18,257,440	-2,331,046
ITOCHU CORP Y50	7,118,468	10,094,692	2,976,224
JAPAN TOBACCO INC Y50000	5,745,226	7,719,697	1,974,471
JGC CORP Y50	1,819,754	2,094,984	275,229
KANEMATSU CORP Y50	141,497	137,447	-4,050
KAWASAKI HEAVY INDUSTRIES Y50	3,751,758	6,729,795	2,978,037
KBC GROUPE NPV	7,203,456	8,899,878	1,696,422
KEPPEL CORP NPV	1,832,943	3,923,796	2,090,854
KEPPEL LD STK SG$0.50	350,482	895,338	544,856
KEPPEL LD STK SG$0.50	7,225,554	11,939,750	4,714,195
KOMATSU Y50	6,939,384	13,465,404	6,526,019
KOREA ELEC PWR CORP KSWN5000	6,877,927	11,416,893	4,538,967
KT CORP KRW5000	2,929,316	3,045,836	116,520
KT CORP SPONSORED ADR	10,078,738	11,315,415	1,236,677
KUDELSKI SA CHF10 (BR)	2,105,763	2,276,516	170,753
LAFARGE SA EUR4.00	9,738,905	10,468,991	730,086
LG ELECTRONICS INC KRW5000	24,345,406	30,262,795	5,917,389
LINDE AG NPV	5,286,400	6,971,112	1,684,712
LLOYDS TSB GROUP ORD 25P	41,988,443	55,776,898	13,788,455

Company Name	Base Cost	Base Market Value	Base Unrealized Investment Gain/Loss
LOCKHEED MARTIN CORP COM	11,641,775	24,348,513	12,706,738
L'OREAL EUR0.2	8,836,665	9,039,460	202,795
LUKOIL OIL CO SPON ADR REP 4	359,692	362,483	2,791
LUNDIN PETROLEUM A ORD SEK0.01	783,825	738,694	-45,131
MAN GROUP ORD USD0.03	22,636,317	33,972,086	11,335,769
MARATHON OIL CORP	12,227,423	35,239,032	23,011,609
MARUBENI CORP Y50	4,905,141	7,643,629	2,738,489
MARUBUN CORP JPY50	1,305,510	1,137,775	-167,736
MATSUSHITA ELEC INDL CO Y50	20,158,510	20,745,487	586,977
MAZDA MOTOR CORP NPV	3,400,695	3,603,377	202,682
MEDTRONIC INC COM	33,668,600	45,929,602	12,261,002
MERCK & CO INC COM	62,106,719	78,435,996	16,329,277
MISYS ORD GBP0.01	671,199	634,977	-36,222
MITSUBISHI CHEMICAL HOLDINGS	7,846,647	10,587,150	2,740,503
MITSUBISHI ELECTRIC CORP Y50	8,283,286	10,153,577	1,870,291
MITSUBISHI HEAVY IND NPV	4,658,783	7,160,922	2,502,138
MITSUBISHI MOTOR CORP Y50	1,876,113	1,883,704	7,591
MITSUBISHI UFJ FINANCIAL GROUP	113,571,003	110,489,334	-3,081,669
MITSUI & CO Y50	28,465,032	53,654,360	25,189,328
NATIXIS EUR1.6	2,038,636	2,512,313	473,678
NEC CORP NPV	8,810,180	7,583,983	-1,226,197
NEC ELECTRONICS CP NPV	1,026,152	996,963	-29,189
NEC FIELDING. LTD NPV	189,677	170,643	-19,034
NEC LEASING LTD NPV	337,390	326,782	-10,608
NEC SYS INT & CONS Y50	310,254	287,102	-23,152
NESTLE SA CHF1 (REGD)	119,427,368	151,142,400	31,715,032
NIPPON YUSEN KK Y50	2,686,398	3,873,946	1,187,548
NISSAN MOTOR CO Y50	47,615,628	47,056,247	-559,381
NOKIA (AB) OY EUR0.06	57,861,571	79,095,917	21,234,346
NOKIA CORP SPON ADR SER A COM	1,212,471	2,162,277	949,807
NORSK HYDRO A S SPONSORED ADR	4,084,688	5,445,821	1,361,133
NORSK HYDRO ASA NOK3.6666	6,266,275	9,576,745	3,310,470
NORSKE SKOGSINDUSTRIER NOK10	881,233	858,499	-22,734
NOVARTIS AG CHF0.50 (REGD)	77,473,760	84,481,706	7,007,946
OIL & NATURAL GAS INR10	8,478,898	10,038,036	1,559,139
OIL CO LUKOIL SPON ADR	25,420,085	38,022,951	12,602,866
OMV AG NPV	3,592,595	4,350,198	757,603
OMV AG NPV	3,061,668	3,841,288	779,620
ORASCOM TELECOM HLDGS SAE EGP1	6,922,113	7,496,531	574,418
OSAKA STEEL CO Y50	214,268	304,413	90,145
PACCAR INC	4,362,125	16,055,485	11,693,361
PERNOD-RICARD NPV	6,380,409	20,675,785	14,295,376
PETRO-CANADA	18,505,138	23,985,444	5,480,307
PETRO-CANADA COM SHS COM	3,462,301	4,316,592	854,291
PETROCHINA CO 'H'CNY1	10,023,615	21,852,620	11,829,005
PETROFAC LTD ORD SHS	3,852,549	4,531,957	679,408
PEUGEOT SA EUR1	6,462,243	8,043,958	1,581,715
PHARMION CORPORATION	137,281	220,020	82,739
PIRELLI & CO REAL EUR0.5	1,055,569	831,998	-223,571
PIRELLI E C SPA EUR0.52	1,171,221	1,538,899	367,678
POSCO ADR	2,306,749	5,341,200	3,034,451
POSCO KRW5000	5,344,707	11,085,818	5,741,111
POSCO REFRACTORIES KRW5000	5,039	6,174	1,135
PRIDE INTL INC DEL COM	2,474,564	4,547,644	2,073,080
PROCTER & GAMBLE CO COM	84,245,751	139,374,238	55,128,486
PROTON HLDGS BHD ORD MYR1	585,597	572,281	-13,316

Company Name	Base Cost	Base Market Value	Base Unrealized Investment Gain/Loss
PUBLICIS GROUPE SA EUR.4	1,302,352	1,236,260	-66,092
PUBLIGROUPE AG CHF20 REGD	1,986,766	2,093,473	106,707
RAYTHEON CO COM NEW	11,193,366	17,959,705	6,766,339
REGUS GROUP ORD GBP0.05	1,271,883	1,728,121	456,238
RELIANCE INDS INR10 DEMAT	17,497,594	22,585,049	5,087,455
RENAULT REGIE NATIONALE DES	9,982,816	18,901,290	8,918,475
REPSOL YPF SA EUR1	23,732,502	37,142,932	13,410,430
RIO TINTO LIMITED NPV	8,070,954	11,432,656	3,361,702
RIO TINTO ORD 10P REGD	35,703,878	80,839,615	45,135,737
RIO TINTO ORD GBP0.10	12,624,123	12,899,009	274,886
ROCHE HLDG AG CHF1	49,565	51,249	1,684
ROCHE HLDG AG GENUSSCHEINE NPV	102,069,355	105,671,371	3,602,016
ROLAND CORP Y50	1,151,340	1,305,316	153,976
ROLLS ROYCE GROUP 'B'SHS	36,201	37,811	1,610
ROLLS ROYCE GROUP ORD GBP0.20	6,802,325	9,470,525	2,668,200
ROLLS ROYCE GROUP ORD GBP0.20	1,466,374	1,423,561	-42,813
ROYAL DUTCH SHELL A SHS	22,651,758	31,375,597	8,723,839
ROYAL DUTCH SHELL 'A'SHS	66,844,059	81,710,996	14,866,937
ROYAL DUTCH SHELL 'B' SHS	52,184,744	66,862,492	14,677,748
ROYAL DUTCH SHELL 'B' SHS	7,078,910	7,527,415	448,504
ROYAL DUTCH SHELL PLC	4,495,242	5,317,730	822,488
ROYAL DUTCH SHELL PLC	8,115,088	9,459,800	1,344,712
SAIPEM EUR1	1,963,417	14,011,654	12,048,237
SAMSUNG CO KSWN5000	3,480,325	26,967,199	23,486,874
SAMSUNG ELECTRONICS CO PFD	7,102,031	6,928,238	-173,793
SAMSUNG ELECTRS KSWN5000	59,663,488	66,173,406	6,509,918
SAMSUNG ELECTRS LTD GDR 1995	731,250	1,378,395	647,145
SANDEN Y50	239,541	231,321	-8,220
SANYO ELECTRIC CO NPV	1,628,817	1,187,514	-441,303
SASOL LTD SPONSORED ADR	1,702,668	1,888,262	185,594
SASOL NVP	9,074,356	9,962,251	887,895
SCANIA AB SER B NPV (POST	4,421,115	8,568,412	4,147,297
SCHERING PLOUGH CORP COM	20,158,133	33,152,752	12,994,619
SCHINDLER HLDG AG PTG CERT	904,748	1,193,174	288,426
SCHLUMBERGER LTD COM	35,664,956	88,595,987	52,931,031
SCHNEIDER ELECTRIC EUR8	24,536,699	42,250,585	17,713,886
SCOTTISH & NEWCASTLE PLC ORD	3,256,831	4,111,868	855,037
SCOTTISH & NEWCASTLE PLC ORD	2,754,349	3,579,722	825,373
SEB SA FF20	1,185,951	1,127,982	-57,968
SEIKO EPSON CORP NPV	1,387,761	1,422,276	34,516
SEIKO HOLDINGS CORP(TOK) Y50	1,232,226	1,255,387	23,161
SEINO HOLDINGS CO LTD	393,297	396,891	3,594
SEMBCORP INDUSTRIES SGD0.25	701,590	1,545,252	843,662
SEMBCORP MARINE SGD0.10	10,948,779	17,332,374	6,383,595
SGL CARBON AG ORD NPV	2,074,324	2,277,265	202,941
SGS SA SZF20(REGD)	1,455,545	1,938,211	482,666
SHIMANO INC Y50	737,928	863,160	125,233
SIEMENS AG NPV REGD	76,426,657	136,237,696	59,811,039
SIEMENS AG SPONSORED ADR	1,199,210	1,444,906	245,696
SKF AB SER B NPV (POST SPLIT)	1,939,880	2,968,917	1,029,037
SNC-LAVALIN GROUP INC	4,585,578	16,783,078	12,197,500
SOCIETE GENERALE EUR1.25	5,078,726	10,740,296	5,661,570
SOCO INTERNATIONAL ORD 20P	2,253,056	4,987,755	2,734,699
SOJITZ CORPORATION NPV	3,891,219	4,353,601	462,382
SONY CORP AMERN SH NEW ADR	495,436	616,440	121,004
SONY CORP NPV	50,997,201	53,302,297	2,305,096

Company Name	Base Cost	Base Market Value	Base Unrealized Investment Gain/Loss
STADA ARZNEIMITTEL AG ORD NPV	905,648	1,613,114	707,466
STANDARD CHARTERED ORD USD0.50	15,587,452	14,992,170	-595,282
STANDARD CHARTERED ORD USD0.50	11,884,762	22,205,680	10,320,917
STANDARD CHARTERED USD0.50	569,866	678,529	108,663
STARWOOD HOTELS & RESORTS COM	36,675,218	57,186,229	20,511,012
STATOIL ASA NOK2.50	10,685,975	12,689,457	2,003,481
STATOIL ASA SPONSORED ADR	8,686,163	9,854,978	1,168,815
STOLT OFFSHORE.COM STK USD2	1,073,742	1,523,553	449,811
STRAUMANN HLDG CHF0.3 (REGD)	3,786,527	4,551,208	764,681
STRYKER CORP	11,171,388	19,028,070	7,856,683
SULZER AG CHF60(REGD)	2,435,176	5,833,623	3,398,447
SUMITOMO CHEMICAL Y50	8,121,263	7,818,380	-302,883
SUMITOMO CORP Y50	31,475,758	42,995,871	11,520,113
SUMITOMO ELECTRIC IND Y50	5,579,301	7,782,874	2,203,573
SUMITOMO MITSUI GR NPV	61,487,220	68,416,132	6,928,912
SWISS REINSURANCE CHF0.1	63,434,062	72,495,240	9,061,179
SYNTHES. INC CHF0.001(POST	2,303,073	2,478,458	175,385
TAISEI CORP Y50	1,263,539	1,127,803	-135,736
TECHNIP SA EUR	4,496,673	4,774,094	277,421
TELE2 AB SER'B' SEK1.25	1,850,325	3,007,106	1,156,781
TELECOM ITALIA EUR0.55	11,689,818	11,313,006	-376,812
TEMENOS GROUP AG CHF5 (REGD)	1,500,545	1,667,831	167,286
TENARIS SA SPONSORED ADR	12,664,802	31,549,824	18,885,022
TEREX CORP NEW	5,617,535	7,321,959	1,704,425
THALES EUR3	6,097,408	8,641,500	2,544,092
THYSSENKRUPP AG NPV	4,099,307	7,480,010	3,380,703
TOSHIBA CORP NPV	11,046,696	14,119,195	3,072,500
TOSHIBA TEC CORP NPV	394,436	527,536	133,099
TOTAL SA ADR	9,280,295	10,721,752	1,441,457
TOTAL SA EUR2.5	60,597,737	79,854,121	19,256,384
TOYO ENGINEERING CORP Y50	43,084	42,682	-402
TOYOTA MOTOR CORP NPV	88,869,427	117,750,033	28,880,606
TOYOTA MTR CORP ADR	352,949	805,632	452,683
TUI AG NPV (REGISTERED)	5,412,541	7,456,359	2,043,819
TUPRAS(T PETR REF) TRY1	6,430,756	16,152,249	9,721,493
UBS AG CHF0.1 (POST	107,964,643	142,551,478	34,586,835
UBS AG SHS NEW	731,038	780,130	49,092
UNILEVER NV CVA EUR0.16	15,241,811	20,511,136	5,269,326
UNILEVER PLC ORD GBP0.031111	54,751,168	76,410,500	21,659,332
UNITED PARCEL SVC INC CL B	50,472,399	55,609,137	5,136,738
UTI BANK INR10	1,953,729	3,208,321	1,254,592
VALEO EUR3	1,011,608	1,266,874	255,266
VESTAS WIND SYSTEM DKK1	9,333,775	19,325,651	9,991,876
VINCI EUR2.50 (POST SUBDIVISIO	9,103,176	16,014,022	6,910,846
VIVENDI UNIVERSAL EUR5.5	29,633,290	32,593,629	2,960,339
VOESTALPINE AG	7,294,153	19,020,302	11,726,149
VOLKSWAGEN AG NON VTG PREF NPV	4,067,189	6,396,976	2,329,787
VOLKSWAGEN AG ORD NPV	9,783,190	18,923,553	9,140,364
VOLVO (AB) SER B NPV (POST	5,824,491	12,442,422	6,617,931
VOLVO (AB)_SER A NPV	1,703,443	3,536,042	1,832,599
WARTSILA 'B'EUR3.5	2,876,609	3,951,551	1,074,942
WATERS CORP COM	2,633,896	4,308,289	1,674,394
WEATHERFORD INTERNATIONAL LTD	9,086,475	15,534,814	6,448,339
WEATHERFORD INTERNATIONAL LTD	10,140,447	12,943,284	2,802,838
WEIR GROUP ORD 12.5P	313,390	344,556	31,165
WYETH	35,005,067	55,996,696	20,991,629

Company Name	Base Cost	Base Market Value	Base Unrealized Investment Gain/Loss
XEROX CORP COM	8,657,757	12,849,735	4,191,979
X-RITE INC	471,987	627,725	155,738
YAMAHA CORP Y50	1,273,019	1,268,651	-4,368
YAMAHA MOTOR CO Y50	4,210,392	6,563,116	2,352,724
YAMATAKE CORPORATION Y50	854,132	2,441,816	1,587,684
	5,295,276,514	**7,649,818,821**	**2,354,542,306**

PSERS Fund Total Equity Assets	**51,800,000,000**
PSERS Exposure as a Percent of Total Equity Assets	**14.8%**
PSERS Fund Total Assets	**67,200,000,000**
PSERS Exposure as a Percent of Total Assets	**11.4%**

PSERS Investment Detail - Sudan Exposure (HB 1140)
As of June 30, 2007

Company Name	Base Cost	Base Market Value	Base Unrealized Investment Gain/(Loss)
Category One: Highest Offenders			
ALSTOM EUR14	1,032,752	1,405,370	372,618
BHARAT HEAVY ELECTRIC LIGHT	4,569,367	6,467,371	1,898,004
CHINA PETE & CHEM CORP SPONS	2,420,263	3,349,200	928,937
CHINA PETROLEUM AND CHEMICAL	7,324,472	12,759,411	5,434,939
DONGFENG MOTOR GROUP CIE LTD	705,835	794,976	89,141
ELECTRICITY GENERATING THBH10	903,748	1,000,388	96,640
ELECTRICITY GENERATING ALIEN	322,486	416,046	93,560
HARBIN POWER EQUIPMENT CO 'H'	220,533	1,245,818	1,025,285
LUNDIN PETROLEUM A ORD SEK0.01	783,825	738,694	(45,131)
MITSUI ENG & SHPG Y50	906,912	1,787,643	880,731
OIL & NATURAL GAS INR10	8,478,898	10,038,036	1,559,139
PETROCHINA CO 'H'CNY1	10,023,615	21,852,620	11,829,005
PETROFAC LTD ORD SHS	3,852,549	4,531,957	679,408
PETRONAS CAPITAL BDS USD1000	2,132,497	1,997,160	(135,337)
RELIANCE INDS INR10 DEMAT	17,497,594	22,585,049	5,087,455
WEIR GROUP ORD 12.5P	313,390	344,556	31,165
	61,488,737	91,314,296	29,825,559
Category Two: Ongoing Engagement			
ALCATEL LUCENT EUR2 SER'A'	324,048	420,561	96,513
CUMMINS INC COM	2,681,872	9,109,204	6,427,332
MARUBUN CORP JPY50	1,305,510	1,137,775	(167,736)
MARUBENI CORP Y50	4,905,141	7,643,629	2,738,489
NIPPON YUSEN KK Y50	2,686,398	3,873,946	1,187,548
PETROBRAS ENERGIA	1,195,458	1,137,080	(58,378)
PETROLEO BRASILEIRO SA	40,278,400	98,682,129	58,403,729
PETROLEO BRASILEIRO SA ADR	14,874,414	30,947,015	16,072,601
PETROLEO BRASILEIRO SA	7,264,598	14,623,290	7,358,691
ROLLS ROYCE GROUP 'B'SHS	36,201	37,811	1,610
ROLLS ROYCE GROUP ORD GBP0.20	8,268,699	10,894,086	2,625,387
SCHLUMBERGER LTD COM	35,664,956	88,595,987	52,931,031
SOJITZ CORPORATION NPV	3,891,219	4,353,601	462,382
TOTAL SA ADR	9,280,295	10,721,752	1,441,457
TOTAL SA EUR2.5	60,597,737	79,854,121	19,256,384
	193,254,947	362,031,987	168,777,040
Grand Totals	**254,743,684**	**453,346,282**	**198,602,599**