

**Report to Colorado  
PERA Board of  
Trustees**

**From Investment  
Staff**

**Regarding the  
*Colorado PERA*  
*Iran-Related*  
*Investment Policy***

**January 20, 2012**



## Table of Contents

<b>Section 1</b>	Executive Summary.....	1
<b>Section 2</b>	<i>Colorado PERA Iran-Related Investment Policy</i> .....	4
<b>Section 3</b>	Review of Staff Activities (January 21, 2011 – January 20, 2012).....	6
<b>Section 4</b>	Company Engagement Efforts.....	8
<b>Section 5</b>	List of Iran-Related Companies Meeting Criteria as of January 20, 2012.....	10
<b>Section 6</b>	PERA Holdings of Iran-Related Companies Meeting Criteria as of January 20, 2012.....	12
<b>Section 7</b>	Iran-Related Companies Meeting Criteria as of January 20, 2012, With Purchase Moratorium in Effect.....	13
<b>Section 8</b>	Information on Companies Meeting Criteria with PERA Holdings.....	14

## SECTION 1

### Executive Summary

Since the last *Iran-Related Investment Policy Report* on January 21, 2011, Colorado PERA staff has continued to work diligently to implement the requirements of the *Colorado PERA Iran-Related Investment Policy* (PERA's policy). Specifically, our efforts have focused on the following areas:

- Reviewing reports received from PERA's research provider to continue to update the list of companies meeting PERA's policy criteria (Phase I).
- Sending letters to companies identified as requiring further research (Phase II).
- Monitoring compliance with the moratorium on direct public investments enacted by the Board (Phase III).
- Obtaining and analyzing updated information about companies that had met policy criteria in the past as well as companies identified as requiring further research.

#### *Background*

As of January 21, 2011, 11 companies met the criteria specified in PERA's policy. On April 22, 2011, the moratorium on five companies cited in the previous report to the Board for terminating their investments in Iran was removed upon the expiration of the 90-day notice period to the public, the General Assembly, and the Governor required before the effective date of any moratorium repeal. Of the six remaining companies meeting the policy criteria, PERA owned direct public securities issued by two of the companies. In compliance with its policy, PERA maintained a moratorium on the purchase of direct public investments in the four companies of the six that PERA did not own.

#### *Research*

Since the last report on PERA's policy, PERA staff has attempted to obtain and analyze all relevant publicly available information that has been published in the past 12 months on the six companies that had met the policy criteria in addition to several other companies recently identified. **Based on this analysis, three new companies have been identified as meeting PERA's policy criteria.** These three companies are:

1. Daelim Industrial Co., Ltd.
2. Hyundai Heavy Industries Co., Ltd.
3. Maire Tecnimont S.p.A.

PERA does not currently hold any of the securities of these companies within separate accounts. **Consistent with Phase III of PERA's policy, PERA will enact a moratorium on direct public investments in these three companies effective today.**

**Furthermore, PERA staff has concluded that two companies should be removed from the list of companies that meet the policy criteria.** These two companies are:

1. China Petroleum & Chemical Corporation (aka Sinopec Corporation) – It has been determined that the business activities in Iran that were previously attributed to Sinopec Corporation were conducted by the company's parent, China Petrochemical Corporation (aka Sinopec Group). PERA's external research provider removed Sinopec Corporation from its Iran list in November 2011. Sinopec Group has neither public equity nor US

dollar-denominated debt. Therefore, Sinopec Group does not meet PERA's criteria for inclusion on its Iran list.

2. Ulan-Ude Aviation Plant JSC – It had previously been reported that Ulan-Ude had delivered military transport helicopters to Iran. However, in an October 2010 newsletter, Ulan-Ude reported that it delivered those helicopters to Iran's Red Crescent, a humanitarian organization. The helicopters were to be used for search and rescue operations and provision of emergency medical services. In light of this information, PERA's external research provider removed Ulan-Ude from its Iran list in August 2011 and determined the company's relationship with Iran to be humanitarian in nature only.

PERA currently has a moratorium on China Petroleum & Chemical Corporation and Ulan-Ude. As specified in Phase III of PERA's policy, removal of moratorium companies requires 90-days advance notice to the public, the General Assembly, and the Governor before the effective date of any repeal of this moratorium. The effective date of the repeal of the moratorium will be April 20, 2012. These two companies will remain on the list of companies meeting the policy criteria until that date.

China Petroleum & Chemical Corporation is also on PERA's Sudan list as a company with active business operations in Sudan. While China Petroleum & Chemical Corporation will be removed from PERA's Iran list following the expiration of the 90-day notice period, PERA will maintain a moratorium on the company's securities for the purposes of PERA's Sudan policy.

### *Summary*

As of January 20, 2012, there are nine companies that meet the criteria specified in PERA's policy. Of the nine companies, PERA owns direct public securities issued by two of the companies. Effective today, PERA will have enacted a moratorium in direct public investments in the seven companies of the nine that PERA does not currently own. Subject to the Board's approval and absent any action by the General Assembly or the Governor, the moratorium placed upon China Petroleum & Chemical Corporation and Ulan-Ude Aviation Plant JSC will be removed on April 20, 2012, and the companies will then also be removed from the list of companies meeting the policy criteria.

### *Investment Staff Evaluation*

For the two companies that meet the policy criteria and in which PERA holds direct public securities, PERA staff has identified and gathered updated information on each of the companies. Staff believes that this information will assist in performing the analysis required by Phase IV of PERA's policy. Phase IV of PERA's policy requires PERA staff to analyze (1) the available strategies for addressing the risk presented, (2) the materiality of the companies' Iranian operations in relation to their overall operations, and (3) the availability of alternative direct public investments providing similar diversity and return expectations. The information presented includes descriptions of the companies' current operations in Iran, company specific information, market index weights, historical total returns, and PERA's separate account exposure. In summary, the information presented details:

- Both companies have unique characteristics; some so unique that they cannot be replicated by another public company.
- Neither of the companies appears to have material oil and gas operations in Iran as compared to company operations as a whole. Both companies hold a globally diversified portfolio of oil and gas projects of which Iran is just one of many projects. If an event were to occur that adversely impacted the company's future business prospects in Iran

(e.g., sanctions, expropriation of assets, war), it is reasonable to conclude that the impact on these companies' overall operations would be minimal. From this perspective, the risk to PERA members solely related to these companies' operations in Iran is negligible.

- In total, both companies represent 5.1 percent of the energy sector of the MSCI ACWI ex US index (the investable universe for the international equity asset class) and approximately 18 percent of the energy sector of the MSCI EM index (the investable universe for international equity emerging markets managers).
- Both companies comprise a significant percentage of their respective country portion of the MSCI ACWI ex US index.

**Based on this work, staff concludes that neither of the companies in which PERA has holdings currently warrant divestment, given the provisions of the PERA policy.**

#### *Engagement*

Over the past twelve months, PERA has mailed engagement letters to ten companies that had recently been identified as possibly meeting the policy criteria. PERA was seeking information directly from the companies in addition to using other information sources to determine if they met the criteria. PERA has received responses from five of the ten companies to date. PERA staff also sent e-mails directly to the investor relations departments of the five companies that have not responded.

#### *Reporting*

Staff is providing this *Colorado PERA Iran-Related Investment Policy Report* as of January 20, 2012. Subject to the Board's approval, this report will be placed on the PERA Web site and forwarded promptly to the Governor and the General Assembly.

## SECTION 2

### **Colorado PERA Iran-Related Investment Policy**

*Adopted January 18, 2008, and revised March 20, 2009*

PERA will initiate a phased strategy to address PERA's direct public investments in foreign companies doing business in the Islamic Republic of Iran. The strategy will address and will include a number of actions, up to and including possible divestment. PERA recognizes the federal government has sole responsibility for the conduct of American foreign policy. PERA is acting out of a fiduciary concern for the welfare of its members' assets, which requires a broad horizon and sensitivity to the potential risks posed by investment in Iran.

The United States prohibits loans from U.S. financial institutions and direct investment in the Iranian energy and defense sectors. The U.S. government can also impose economic sanctions on foreign companies investing in Iran's petroleum and natural gas sector. It is widely reported that Iran supports terrorism, supplies explosively formed penetrators for use against our troops in Iraq, continues to develop the infrastructure to support advanced nuclear technology, and that its president publicly calls for the destruction of the State of Israel.

PERA must be managed for the benefit of the members, retirees, and beneficiaries, and this policy is developed to address the potential for risk presented by pension fund investments in companies doing business in Iran.

Accordingly, the PERA Board of Trustees adopts a policy consisting of the following phases:

- Phase I: Commencing immediately, staff shall undertake research to identify a list of public companies doing business in Iran which meet the following criteria: (This list will be developed through staff research of publicly available information that may include the retention of external third party researchers and/or other information provided by other public funds, pension systems, and investor organizations.)
  1. That have made an investment on or after August 5, 1996, or in any combination in any 12-month period, of \$20,000,000 or more, in Iran's energy sector; or
  2. Are engaged in business with any Iranian organization labeled by the U.S. government as a terrorist organization; or
  3. Are engaged in any business that facilitates Iranian acquisition of nuclear, chemical, or biological weapons technology or military equipment.

The Board may determine that a company has taken sufficient steps to mitigate risks presented by Iranian investments or that there is sufficient evidence of an elimination of ongoing Iranian investment or business activities to warrant removal of a company from the list (removal of moratorium companies requires 90-day advance notice as specified in Phase III).

- Phase II: Upon a company being included on the list that meets the criteria set forth under Phase I in which PERA holds a direct public investment, staff shall within 30 days after identifying such a company, engage such company and ask them to:
  1. Provide a detailed description of the nature, extent, duration, and full history of the companies' business activities in Iran;
  2. Provide an explanation as to how these activities are consistent with a sound and prudent long-term investment strategy;
  3. Report how they are engaging the government of Iran regarding its conduct and how they are mitigating investment risks posed by doing business in Iran;

4. Report whether substantial action has been taken to affect the policies and practices of the government of the Islamic Republic of Iran; and
  5. Additionally, staff shall, where practical, confer and work with other pension systems and investor organizations regarding information stemming from their engagement with such companies and potentially cooperate in taking joint action in engaging such companies.
- Phase III: Upon a company being included on the list that meets the criteria set forth under Phase I, the Board enacts a moratorium on direct public investments in companies in which PERA currently holds no interest. The moratorium shall apply upon the date that staff determines such a company meets the criteria. The Board shall give 90-days advance notice before the effective date of any amendment or repeal of this moratorium to the public, the General Assembly, and the Governor.
  - Phase IV: Within 90 days after engaging such a company, staff shall evaluate the companies' responses and determine if they have taken sufficient steps to minimize risk to PERA and/or whether additional time is required to effectively engage such company. If not, staff shall analyze:
    1. The available strategies for addressing the risk presented;
    2. The viability of working with other interested parties and investors to affect the policies and practices of companies with business operations in Iran;
    3. The materiality of the company's Iranian operations in regards to their overall operations; and
    4. The availability of alternative direct public investments providing similar diversity and return expectations.
  - Phase V: Staff shall report to the Board its findings, actions, and recommendations concerning individual companies on the list as changes to the list warrant, but not less than annually. This report shall be made available to the public and forwarded to the General Assembly and the Governor; provided, however, the first public report shall be made no later than March 21, 2008. Should adequate mitigation of risk not be possible, the PERA Board of Trustees, consistent with its fiduciary obligations and responsibilities, will thereafter direct staff to:
    1. Withhold additional or new direct public investments in non-complying companies; and/or
    2. Divest current direct public investments in the companies.

## Section 3

### Review of Staff Activities (January 21, 2011 – January 20, 2012)

- Issued *Iran-Related Investment Policy Report* dated January 21, 2011
- Updated the portfolio accounting and trading systems to identify securities issued by the companies meeting PERA's policy criteria (January 21, 2011)
- Sent letters to the Governor and the General Assembly providing 90-days advance notice of the removal of the moratorium on ENI S.p.A., GAIL (India) Ltd., GS Engineering & Construction Corporation, INPEX Corporation, and Liquefied Natural Gas Ltd. (LNGL) <sup>1</sup> (January 21)
- Held conference call with current independent research provider to discuss product offering in light of their merger with another research provider (January 28)
- Held conference call with alternative independent research provider to discuss product offering (January 28)
- Reviewed security holdings and transactions to verify compliance with moratorium (February 1)
- Received and reviewed research provider updated report (February 1)
- Reviewed security holdings and transactions to verify compliance with moratorium (March 1)
- Received and reviewed research provider updated report (March 1)
- Reviewed security holdings and transactions to verify compliance with moratorium (April 1)
- Received and reviewed research provider updated report (April 1)
- Removed moratorium on ENI S.p.A., GAIL (India) Ltd., GS Engineering & Construction Corporation, INPEX Corporation, and Liquefied Natural Gas Ltd. (LNGL). Issued updated Iran list. Sent letters to all portfolio managers (internal and external) of actively managed separate account portfolios notifying them of the moratorium removal. Deleted the companies' securities from the portfolio accounting and trading systems (April 22)
- Reviewed security holdings and transactions to verify compliance with moratorium (May 2)
- Received and reviewed research provider updated report (May 2)
- Reviewed security holdings and transactions to verify compliance with moratorium (June 1)
- Received and reviewed research provider updated report (June 1)
- Reviewed security holdings and transactions to verify compliance with moratorium (July 1)
- Received and reviewed research provider updated report (July 1)
- Reviewed security holdings and transactions to verify compliance with moratorium (August 1)
- Received and reviewed research provider updated report (August 1)
- Reviewed security holdings and transactions to verify compliance with moratorium (September 1)
- Received and reviewed research provider updated report (September 1)
- Reviewed security holdings and transactions to verify compliance with moratorium (October 3)

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<sup>1</sup> For background information, see Colorado PERA's *Iran-Related Policy Report* dated January 21, 2011.



- Received and reviewed research provider updated report (October 3)
- Sent letters to three newly identified companies requesting feedback on their business activities in Iran (October 11)
- Retrieved the 2010 annual reports and Forms 20-F (Form filed with the SEC by non-U.S. companies with securities that trade on a U.S. exchange) for each subject company. Extracted and compiled descriptions of business activities in Iran. Assessed whether subject companies met policy criteria (October 14-December 9)
- Searched the following Web sites for company activities in Iran in an effort to independently corroborate provided research: U.S. Department of Energy, U.S. Department of State, U.S. Department of the Treasury, Congressional Research Service, Library of Congress, Reuters, Bloomberg, and brokerage research sites in addition to the individual Web sites of each cited company (October 14-December 9)
- Reviewed security holdings and transactions to verify compliance with moratorium (November 1)
- Received and reviewed research provider updated report (November 1). Prepared and sent a detailed list of questions regarding the findings of their November 1 report (November 3)
- Sent letters to seven newly identified companies requesting feedback on their business activities in Iran (November 7)
- Sent e-mails directly to the investor relations departments of the three companies that had not replied to PERA's engagement letter sent on October 11 (November 18)
- Reviewed security holdings and transactions to verify compliance with moratorium (December 1)
- Received and reviewed research provider updated report (December 1)
- Sent e-mails directly to the investor relations departments of the seven companies that had not replied to PERA's engagement letter sent on November 7 (December 2)
- Evaluated PERA's exposure (equity and fixed income) to the securities of the two companies with PERA holdings as of the close of business on December 7, 2011 (December 8)
- Acquired equity and fixed income index constituent data for the MSCI and Barclays indices utilized by PERA as benchmarks. Identified the constituent securities within these indices issued by the two companies with PERA holdings. Calculated the relevant sector and country weightings of these companies within each respective index (December 8)
- Retrieved monthly return data for the equity securities of the two companies with PERA holdings (December 9)
- Used Bloomberg research to identify actively traded securities issued by all of the companies meeting PERA's policy criteria (December 12)
- Reviewed security holdings and transactions to verify compliance with moratorium (January 3, 2012)
- Received and reviewed research provider updated report (January 3, 2012)
- Issued *Iran-Related Investment Policy Report* dated January 20, 2012

## Section 4

### Company Engagement Efforts

In compliance with Phase II of the *Colorado PERA Iran-Related Investment Policy*, PERA began engaging companies on March 21, 2008 and continues to do so. PERA's engagement efforts consist of sending letters to the investor relations departments of companies that have been identified as possibly meeting PERA's policy criteria. The letters request information relating to the criteria specified in Phase I, ask the companies to provide and report on the items specified in Phase II, and also request information on their business activities within Iran. The letters are sent via Federal Express courier, and PERA has received delivery verification notices for each letter. Each company's response status is summarized below. Companies highlighted in red text currently meet the criteria in PERA's policy and are listed in Section 5 of this report.

	Company	Company Responsive to PERA Communications
1	Air Liquide SA	Yes; January 4, 2012
2	Belorusneft & Belneftekhim	No
3	Bow Valley Energy Ltd.	Yes; June 15, 2008
4	China National Offshore Oil Corporation (CNOOC)	Yes; April 18, 2008
5	China National Petroleum Corporation	No
6	China Petroleum & Chemical Corporation (Sinopec)	No
7	Cygam Energy Inc.	No
8	Daelim Industrial Co., Ltd.	No
9	Empresa Nacional del Petroleo (ENAP)	Yes; April 21, 2008
10	ENI S.p.A.	Yes; November 12, 2010 and March 31, 2008
11	Essar Oil Limited	No
12	GAIL (India) Limited	No
13	Gazprom Neft JSC	Yes; December 14, 2009
14	Gazprom OAO	No
15	GS Engineering & Construction Corporation	No
16	GVA Consultants	No
17	Hyundai Heavy Industries Co., Ltd.	No
18	Indian Oil Corporation Limited	No
19	INPEX Corporation	Yes; October 28, 2010 and April 16, 2008
20	Linde AG	Yes; April 9, 2008
21	Liquefied Natural Gas Limited (LNGL)	No
22	Lukoil OAO	No
23	Maire Tecnimont S.p.A.	No
24	Mazda Motor Corporation	No
25	Mitsubishi Motors Corporation	Yes; December 1, 2011
26	Nissan Motor Corporation	No
27	Oil & Natural Gas Corp. Ltd. (ONGC)	No

	<b>Company</b>	<b>Company Responsive to PERA Communications</b>
28	Oil India Limited	No
29	OMV AG	Yes; April 15, 2008
30	Petroleo Brasileiro S.A. (Petrobras)	Yes; April 25, 2008
31	Petroliam Nasional (Petronas)	No
32	Peugeot SA	Yes; November 28, 2011
33	PTT Exploration & Production	No
34	Renault SA	Yes; December 1, 2011
35	Repsol YPF	Yes; April 3, 2008
36	Royal Dutch Shell Plc	Yes; April 10, 2008
37	Sasol Ltd.	No
38	Siemens AG	Yes; December 18, 2009
39	Statoil ASA	Yes; November 5, 2010 and April 21, 2008
40	The Siam Cement PCL	Yes; April 11, 2008
41	Total S.A.	Yes; April 17, 2008
42	Ulan-Ude Aviation Plant JSC	No
43	Volvo AB	Yes; December 5, 2011

## Section 5

### List of Iran-Related Companies Meeting Criteria as of January 20, 2012<sup>1</sup>

#### 1. China National Petroleum Corporation

China National Petroleum Corporation explores and produces crude oil and natural gas mainly in China. The company's products include geophysical exploration equipment, drilling equipment, line pipe, gasoline, coal oil, and diesel oil.

China National Petroleum Corporation meets criteria (1) – a company that has made an investment on or after August 5, 1996, or in any combination in any 12-month period, of \$20 million or more, in Iran's energy sector.

#### 2. China Petroleum & Chemical Corporation (Sinopec Corp.)

China Petroleum and Chemical Corporation (Sinopec Corp.) refines, produces and trades petroleum and petrochemical products such as gasoline, diesel, jet fuel, kerosene, ethylene, synthetic fibers, synthetic rubber, synthetic resins, and chemical fertilizers. Also, the company explores for and produces crude oil and natural gas in China.

China Petroleum & Chemical Corporation meets criteria (1) – a company that has made an investment on or after August 5, 1996, or in any combination in any 12-month period, of \$20 million or more, in Iran's energy sector.

#### 3. Daelim Industrial Co., Ltd.

Daelim Industrial Co., Ltd. provides civil engineering, architectural, and plant construction services. The company constructs bridges, highways, tunnels, harbors, and governmental buildings. Daelim Industrial also manufactures petrochemical products, including polyester, benzene, butane, and methyl tertiary butyl ether (MTBE). The company is incorporated in South Korea.

Daelim Industrial Co., Ltd. meets criteria (1) – a company that has made an investment on or after August 5, 1996, or in any combination in any 12-month period, of \$20 million or more, in Iran's energy sector.

#### 4. Gazprom OAO

Gazprom OAO operates gas pipeline systems, produces and explores gas, and transports high pressure gas in the Russian Federation and European countries. The company is also engaged in oil production, oil refining, gas storage, and electric and heat energy generation. Gazprom is incorporated in Russia.

Gazprom OAO meets criteria (1) – a company that has made an investment on or after August 5, 1996, or in any combination in any 12-month period, of \$20 million or more, in Iran's energy sector.

#### 5. Hyundai Heavy Industries Co., Ltd.

Hyundai Heavy Industries Co., Ltd. builds ships for commercial and military purposes. The company manufactures oil tankers, cargo and passenger vehicles, and warships. Hyundai Heavy Industries also produces heavy industrial machineries, wind turbines, solar panels, electrical components for engines and power trains, and industrial vehicles, such as cranes and bulldozers. The company is incorporated in South Korea.

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<sup>1</sup> Company description information sourced from Bloomberg.

Hyundai Heavy Industries Co., Ltd. meets criteria (3) – a company that is engaged in any business that facilitates Iranian acquisition of nuclear, chemical, or biological weapons technology or military equipment.

#### 6. Maire Tecnimont S.p.A.

Maire Tecnimont S.p.A. is the parent company of an international industrial group which provides a comprehensive, integrated system of services and works in four sectors: chemicals and petrochemicals, oil and gas, power and infrastructure and civil engineering. The company is incorporated in Italy.

Maire Tecnimont S.p.A. meets criteria (1) – a company that has made an investment on or after August 5, 1996, or in any combination in any 12-month period, of \$20 million or more, in Iran's energy sector.

#### 7. Petroliam Nasional (Petronas)

Petroliam Nasional Bhd operates as a fully integrated oil company. The company explores and produces oil, gas, and various petrochemical products in Southeast Asia, Australia, Africa, and Middle East. Petronas also operates retail service stations in Malaysia. The company is incorporated in Malaysia.

Petroliam Nasional meets criteria (1) – a company that has made an investment on or after August 5, 1996, or in any combination in any 12-month period, of \$20 million or more, in Iran's energy sector.

#### 8. Sasol Ltd.

Sasol is an integrated oil and gas company with substantial chemical interests, with production facilities located in South Africa, Europe, North America and Asia. The company operates commercial scale facilities to produce fuels and chemicals from coal in South Africa and is developing ventures internationally to convert natural gas into clean diesel fuel. Sasol is incorporated in South Africa.

Sasol Ltd. meets criteria (1) – a company that has made an investment on or after August 5, 1996, or in any combination in any 12-month period, of \$20 million or more, in Iran's energy sector.

#### 9. Ulan-Ude Aviation Plant JSC

Ulan-Ude Aviation Plant JSC manufactures military and civilian helicopters and airplanes. The company is incorporated in Russia.

Ulan-Ude meets criteria (3) – a company that is engaged in any business that facilitates Iranian acquisition of nuclear, chemical, or biological weapons technology or military equipment.

## Section 6

### PERA Holdings of Iran-Related Companies Meeting Criteria as of January 20, 2012

To develop the following information, PERA used an identification date of December 7, 2011. The following table indicates which companies are (a) on the list meeting the policy criteria, and (b) are or are not held by PERA in separate account portfolios.

<b>Company Name</b>	<b>Date Added to PERA List</b>	<b>Market Value</b>
1. China National Petroleum Corporation	January 15, 2010	–
2. China Petroleum & Chemical Corp. (Sinopec)	March 21, 2008	–
3. Daelim Industrial Co., Ltd.	January 20, 2012	–
4. Gazprom OAO	March 21, 2008	\$ 37,518,368
5. Hyundai Heavy Industries Co., Ltd.	January 20, 2012	–
6. Maire Tecnimont S.p.A.	January 20, 2012	–
7. Petroliam Nasional Bhd (Petronas)	March 21, 2008	–
8. Sasol Ltd.	June 20, 2008	\$ 3,671,169
9. Ulan-Ude Aviation Plant JSC	June 20, 2008	–
	<b>Total</b>	<b>\$ 41,189,537</b>

## Section 7

### Iran-Related Companies Meeting Criteria as of January 20, 2012, With Purchase Moratorium in Effect

Company Name	Date Moratorium Enacted
1. China National Petroleum Corporation	January 15, 2010
2. China Petroleum and Chemical Corporation (Sinopec) <sup>1</sup>	June 20, 2008
3. Daelim Industrial Co., Ltd.	January 20, 2012
4. Hyundai Heavy Industries Co., Ltd.	January 20, 2012
5. Maire Tecnimont S.p.A.	January 20, 2012
6. Petroliam Nasional Bhd (Petronas)	March 21, 2008
7. Ulan-Ude Aviation Plant JSC <sup>2</sup>	June 20, 2008

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<sup>1</sup> The moratorium on China Petroleum & Chemical Corporation will be removed on April 20, 2012.

<sup>2</sup> The moratorium on Ulan-Ude Aviation Plant JSC will be removed on April 20, 2012.

## Section 8

### Information on Companies Meeting Criteria with PERA Holdings

Phase IV of PERA's policy requires PERA staff to analyze (1) the materiality of a company's Iranian operations in regards to the company's overall operations and (2) the availability of alternative direct public investments providing similar diversity and return expectations.

For those companies meeting PERA's policy criteria in which PERA has holdings, PERA staff has gathered the following information:

- Descriptions of the company's operations in Iran
- Company specific information – relevant data regarding the company including information that addresses the company's unique characteristics and materiality of the company's Iran operations
- Index weights – the performance for each of PERA's portfolios is benchmarked against broad index measures. The international equity portfolios are benchmarked against the following indices:
  - MSCI All Country World Index excluding US (includes developed and emerging market countries)
  - MSCI Europe, Australasia, and Far East Index
  - MSCI Emerging Market Index

These indices are a representation of PERA's investable universe. The sector and country representation are important characteristics that define a company's risk and return expectations. Both companies are included in the Energy sector, and each company is a significant portion of their country weight.

PERA staff has gathered information showing the respective weights for each company's securities within the relevant equity index, within the Energy sector of the relevant equity index, and within the country portion of the relevant equity index.

PERA's fixed income portfolios are benchmarked against the following indices:

- Barclays Universal (includes emerging market and high yield fixed income securities as well as the Barclays Aggregate)
- Barclays Aggregate (includes Treasury, government-related, asset-backed, mortgage-backed, and corporate fixed income securities)
- Fixed Income Custom Index (consists of 98 percent Barclays Universal Bond Index and 2 percent Barclays Capital Long Government/Credit Index)
- Custom Emerging Market (includes government-related and corporate fixed income securities of emerging market countries)

PERA has fixed income holdings in one of the companies identified as meeting PERA's policy criteria. For this company, PERA staff has gathered information showing the respective aggregate weights within the relevant fixed income indices for all of the company's securities.

- Historical Equity Total Returns – the one-, three-, and five-year total returns for each company's equity securities.
- Separate account exposure – PERA's equity and fixed income exposure



# Gazprom OAO

## Operations in Iran

- As part of a consortium with French company TotalFinaElf and Malaysian company Petronas, Gazprom signed a contract in 1997 to develop the second and third phases of the South Pars natural gas field development project. Gazprom held a 30% stake in the \$2 billion project. As part of the contract, Gazprom constructed two offshore production platforms and drilled ten production wells.<sup>1</sup> Gazprom completed its work in 2004 and turned over operations to the National Iranian Oil Company.<sup>2</sup> The terms of the contract are nearly fulfilled as Gazprom is scheduled to receive the last payment for its investment in the project in the third quarter of 2011.
- Although Gazprom continues to express interest in other energy projects in Iran and has signed preliminary agreements to participate in these projects, these agreements have either expired, stalled, or failed to materialize into formal contracts.

**Outside of maintaining a representative office in Tehran, it does not appear Gazprom currently has any significant activities in Iran.**

## Company Specific Items

- Russia's largest company
- World's largest producer of natural gas<sup>3</sup>
- Controls 18 percent of the world's natural gas reserves<sup>4</sup>
- Operates the largest gas transmission network in the world<sup>5</sup>
- Supplies one-third of Western Europe's natural gas imports<sup>6</sup>
- Russian government owns 50.002 percent<sup>7</sup>
- Former Gazprom chairman Dmitri Medvedev was elected President of Russia in 2008; the current CEO of the company is characterized as a Putin ally
- Gazprom accounts for 25 percent of Russia's tax revenues<sup>8</sup>
- Controls 69 percent of Russia's natural gas reserves<sup>9</sup>
- Produces 78 percent of Russia's natural gas<sup>10</sup>
- The valuation of the company's oil and gas reserves versus the company's implied valuation based on equity prices indicates significant potential for appreciation<sup>11</sup>

**There is no other publicly traded Russian energy company with these unique characteristics.**

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<sup>1</sup> Gazprom 2002 Annual Report, p. 41. Company Web site.

<sup>2</sup> Gazprom 2004 Annual Report, p. 26. Company Web site.

<sup>3</sup> Hoover's, Inc. 2011

<sup>4</sup> Gazprom in Figures 2006-2010, p. 3

<sup>5</sup> Gazprom Questions and Answers 2011, p. 38

<sup>6</sup> Gazprom Questions and Answers 2011, p. 54

<sup>7</sup> Gazprom 2010 Annual Report, p. 103

<sup>8</sup> Hoover's, Inc. 2011

<sup>9</sup> Gazprom in Figures 2006-2010, p. 3

<sup>10</sup> Gazprom in Figures 2006-2010, p. 3

<sup>11</sup> Based on PERA external manager data

# Sasol Ltd.

## Operations in Iran

- In February 2003, Sasol signed a joint venture agreement with the Pars Petrochemical Company, a subsidiary of the National Petrochemical Company of Iran. The joint venture, called Arya Sasol Polymer Company, constructed an ethane cracker and two polyethylene plants designed to convert ethane from natural gas into ethylene. The facilities initiated full operation in 2009<sup>1</sup> and are located in the Bushehr province in Iran.<sup>2</sup> Sasol holds a 50% interest in the joint venture and has invested €535 million, which is Sasol's 50% share of the total required capital investment.<sup>3</sup>
- In October 2011, Sasol reported that they have initiated a review of their business activities in and with Iran, and they do not intend to expand their current activities.<sup>4</sup>

## Company Specific Items

- One of the largest companies (by market capitalization) listed on the Johannesburg Stock Exchange<sup>5</sup>
- Recognized as the world leader in producing synthetic fuel employing coal-to-liquid and gas-to-liquid proprietary technology<sup>6</sup>
- Alternative energy company. Sasol mines coal in South Africa and produces natural gas in Mozambique. This coal, together with Mozambican natural gas, is converted into fuels using proprietary technology. This fuel is then marketed through Sasol's network of 406 gas stations (9.7 percent of South Africa market)<sup>7</sup>
- Proven and probable coal reserves of 4,617 million tons, which are all located in South Africa.<sup>8</sup> For reference, Peabody Energy is the world's largest private sector coal company<sup>9</sup> with proven and probable reserves of 9,013 million tons<sup>10</sup>
- Operates the only inland crude oil refinery in South Africa<sup>11</sup> (three others coastally located and not owned by Sasol)
- Sasol's predecessor company was established in 1950 by the South African government to manufacture fuels and chemicals from indigenous raw materials. Listed on the Johannesburg Stock Exchange in 1979 and on the New York Stock Exchange in 2003<sup>12</sup>
- South African government owns 8 percent<sup>13</sup>
- Has activities in 34 countries across six continents<sup>14</sup>

**There is no other publicly traded South African energy company with these unique characteristics.**

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<sup>1</sup> Sasol 2011 20-F, pp. 28-29

<sup>2</sup> Sasol 2011 20-F, p. 116

<sup>3</sup> Sasol 2010 20-F, p. 44

<sup>4</sup> Sasol 2011 20-F, p. 29

<sup>5</sup> Sasol 2011 20-F, p. 37

<sup>6</sup> JP Morgan, African Equity Research, Sasol, Ltd., May 12, 2006, p. 3

<sup>7</sup> Sasol 2011 20-F, p. 51

<sup>8</sup> Sasol 2011 20-F, p. 121

<sup>9</sup> Peabody Energy 2010 Annual Report, p. 3

<sup>10</sup> Peabody Energy 2010 Annual Report, p. 18

<sup>11</sup> Sasol 2011 20-F, p. 37

<sup>12</sup> Sasol 2011 20-F, p. 28

<sup>13</sup> Sasol 2011 20-F, p. 28

<sup>14</sup> Sasol Facts 2011, pp. 8-9

The table below shows Sasol's revenue, operating profit or loss, and assets for each country or region in which the company operates. Sasol's Iran operations are highlighted in gray. This data is as of June 30, 2011.

(South African Rand, million)	<b>Total Revenue</b>	<b>%</b>	<b>Operating Profit/(Loss)</b>	<b>%</b>	<b>Total Consolidated Assets</b>	<b>%</b>
South Africa	127,632	63.3%	20,316	67.8%	112,353	63.8%
Mozambique	341	0.2%	(337)	-1.1%	6,226	3.5%
Nigeria	621	0.3%	(233)	-0.8%	2,647	1.5%
Rest of Africa	5,565	2.8%	321	1.1%	1,052	0.6%
Germany	8,673	4.3%	1,312	4.4%	9,343	5.3%
Italy	4,230	2.1%	423	1.4%	4,509	2.6%
Rest of Europe	20,957	10.4%	3,702	12.4%	8,397	4.8%
US	13,203	6.5%	1,658	5.5%	6,260	3.6%
Canada	70	0.0%	(91)	-0.3%	8,035	4.6%
Rest of N. America	1,396	0.7%	196	0.7%	131	0.1%
South America	2,024	1.0%	194	0.6%	359	0.2%
Southeast Asia and Australasia	3,995	2.0%	86	0.3%	2,069	1.2%
Iran	981	0.5%	464	1.5%	6,581	3.7%
Qatar	146	0.1%	37	0.1%	4,516	2.6%
Rest of Middle East and India	5,948	2.9%	1,357	4.5%	1,756	1.0%
Far East	5,847	2.9%	545	1.8%	1,796	1.0%
	<b>201,629</b>	<b>100.0%</b>	<b>29,950</b>	<b>100.0%</b>	<b>176,030</b>	<b>100.0%</b>

Source: Sasol 2011 20-F, p. F-42

Based on the above disclosure, Sasol's operations in Iran comprise:

- Half of 1 percent of its total revenue
- One and a half percent of its total operating profit
- Less than 4% of its total assets

**Given this, Sasol's operations in Iran do not appear to be material as compared to the company's operations as a whole.**

## Index Weights

Equity (data as of December 7, 2011)

	<b>MSCI ACWI ex US Energy Sector Weight</b>	<b>MSCI EM Energy Sector Weight</b>	<b>MSCI ACWI ex US Country Weight</b>
Gazprom OAO	3.6%	12.3%	27.6%
Sasol Ltd.	1.5%	5.3%	10.2%
	<b>5.1%</b>	<b>17.6%</b>	

- Of the 116 members of the energy sector of the MSCI ACWI ex US index (the investable universe for the international equity asset class), the equity securities of Gazprom and Sasol represent 5.1 percent of the entire sector.
- Of the 49 members of the energy sector of the MSCI EM index (the investable universe for international equity emerging markets managers), the equity securities of Gazprom and Sasol represent 17.6 percent of the entire sector.
- Both companies comprise a significant percentage of their respective country portion of the MSCI ACWI ex US index. Gazprom represents approximately 28 percent of all Russian companies in the index, and Sasol represents approximately 10 percent of all South African companies in the index.
- Of the nine Russian energy companies within the MSCI ACWI ex US index, Gazprom represents 46.3 percent of the Russian energy sector. Sasol represents 100% of the South African energy sector. There is no other South African energy company represented in the index.

Fixed Income (data as of December 7, 2011)

	<b>Barclays Universal Foreign Agency Sector Weight</b>	<b>Custom EM Foreign Agency Sector Weight</b>	<b>Barclays Universal Country Weight</b>	<b>Custom EM Country Weight</b>
Gazprom OAO	3.5%	17.3%	18.9%	20.0%

- PERA holds fixed income securities issued by one of the nine companies (Gazprom) that meet the policy criteria within its separate accounts.
- Gazprom's fixed income securities comprise a significant percentage of the sector and country portion of the fixed income indices of which they are a member.

## Historical Equity Total Returns<sup>1</sup>

	<b>Ticker</b>	<b>1-Year</b>	<b>3-Year</b>	<b>5-Year</b>
Gazprom OAO	GAZ.GR	5.2%	10.9%	-12.5%
Sasol Ltd.	SOL.SJ	11.5%	22.9%	10.1%

## Separate Account Exposure (data as of December 7, 2011)

	<b>Equity Exposure</b>	<b>Fixed Income Exposure</b>	<b>Total Exposure</b>
Gazprom OAO	\$32,799,318	\$4,719,050	\$37,518,368
Sasol Ltd.	\$3,671,169	-	\$3,671,169
			<b>\$41,189,537</b>

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<sup>1</sup> Annualized returns are calculated from month-end prices, are denominated in U.S. dollars, and are as of November 30, 2011.