



**Colorado Public Employees' Retirement Association**  
**Mailing Address:** PO Box 5800, Denver, CO 80217-5800  
**Office Locations:** 1300 Logan Street, Denver  
1120 W. 122nd Avenue, Westminster  
303-832-9550 • 1-800-759-PERA (7372)  
[www.copera.org](http://www.copera.org)

January 31, 2013

Mike Mauer  
Director, Legislative Council, State of Colorado  
State Capitol Building, Room 029  
Denver, CO 80203

Dear Mr. Mauer:

On January 18, 2008, the Colorado PERA Board of Trustees adopted the *Colorado PERA Iran-Related Investment Policy* (PERA's policy). This policy outlines a phased strategy to address Colorado PERA's direct public investments in foreign companies doing business in the Islamic Republic of Iran.

In keeping with PERA's Policy, the Board of Trustees has instituted a moratorium on investments in securities for one new company effective immediately. This company is:

- ZTE Corporation

One other new company, MTN Group Ltd., was identified as meeting the policy criteria and PERA holds securities issued by it. PERA staff shall begin to implement Phase II engagement with these companies immediately and report to the Board on that engagement, whether the risks these firms poses can be mitigated or whether divestment is warranted.

I encourage you to read the enclosed latest Executive Summary of Colorado PERA Investment Staff's *Iran-Related Investment Policy Report*, which was adopted by the PERA Board of Trustees on January 18, 2013, for a detailed explanation regarding PERA's continued implementation of its Iran-related investment policy. The full report is available on the PERA website.

Sincerely,

A handwritten signature in black ink, appearing to read "Greg Smith".

Greg Smith  
Executive Director  
Colorado PERA



## SECTION 1

### Executive Summary

Since the last *Iran-Related Investment Policy Report* on January 20, 2012, 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 20, 2012, nine companies met the criteria specified in PERA's policy. On April 20, 2012, the moratorium on two companies cited in the previous report to the Board 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 seven 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 five companies of the seven 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 seven companies that had met the policy criteria in addition to several other companies recently identified. **Based on this analysis, two new companies have been identified as meeting PERA's policy criteria.** These two companies are:

1. MTN Group Ltd.
2. ZTE Corporation

PERA currently holds direct public investments in MTN Group. Within 30 days, staff will execute Phase II of PERA's policy in regards to MTN Group and engage the company. Within 90 days after engaging the company, staff will evaluate the company's response and determine if they have taken sufficient steps to minimize risk to PERA and/or whether additional time is required to effectively engage the company. If not, staff will conduct the additional analysis required under Phase IV and report its findings and recommendations to the Board.

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

## *Summary*

As of January 18, 2013, there are nine companies that meet the criteria specified in PERA's policy. Of the nine companies, PERA owns direct public securities issued by three of the companies. Effective today, PERA will have enacted a moratorium in direct public investments in six companies of the nine that meet the policy criteria.

## *Investment Staff Evaluation*

For the two<sup>1</sup> companies that meet the policy criteria and in which PERA holds direct public securities (i.e. Gazprom OAO and Sasol Ltd.), PERA staff has identified and gathered updated information on each the companies. Staff has found this information useful 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 for Gazprom and Sasol indicates that:

- 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 4.3 percent of the energy sector of the MSCI ACWI ex US index (the investable universe for the international equity asset class) and 15.0 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.

**Given the provisions of PERA's policy, staff maintains its conclusion that divestment of Gazprom OAO and Sasol Ltd. is not currently warranted. PERA staff will continue to closely monitor the companies' activities in Iran.**

## *Reporting*

Staff is providing this *Colorado PERA Iran-Related Investment Policy Report* as of January 18, 2013. 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.

---

<sup>1</sup> MTN Group is excluded from this analysis as the engagement period has not concluded.



## 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.