JAN 17 2017

SOUTH DAKOTA INVESTMENT COUNCIL

4009 West 49th Street, Suite 300
Sioux Falls, SD 57106-3784 USA
Phone: (605) 362-2820

January 13, 2017

Executive Board
c/o Jason Hancock, Director
Legislative Research Council
500 E. Capitol Ave.
Pierre, SD 57501

South Dakota Codified Law 4-5-58 states that by January fifteenth of each calendar year, the State Investment Council shall submit a report to the Executive Board of the Legislative Research Council regarding compliance with SDCL 4-5-48 to 4-5-60, Iran Divestiture. The items to be addressed in the report as outlined in the law are listed below. The actions taken by the Council are in italics.

1. A copy of the most recent list of scrutinized companies;
   §4-5-49 instructs the Council to identify all scrutinized companies in which it has direct holdings from publicly available information. *The Council references lists produced by the State of Colorado and Florida.*
   §4-5-50 requires the Council to assemble a list of scrutinized companies in which it has direct holdings from the list developed. *This was originally completed at the 8/23/10 Council meeting.*
   §4-5-51 states that the Council shall update the scrutinized companies list each quarter based on continuing information. *The most recent memorandums to the Investment Council dated October 27, 2016 and August 9, 2016 are attached. The Council approved the current list (attached) at their August 29, 2016 meeting. The scrutinized company list will continue to be updated as new information is received.*

2. A summary of correspondence with companies engaged by the State Investment Council pursuant to §4-5-52 (Procedures with respect to companies on the scrutinized companies list);
   No new companies were added to the scrutinized companies list in which a direct position was held.

3. A list of all investments sold, redeemed, divested, or withdrawn in compliance with §4-5-53 (Divestiture of securities in companies with scrutinized business operations);
   No direct holdings were sold, redeemed, divested or withdrawn as a result of the Iran divestiture law.

4. A list of all prohibited investments pursuant to §4-5-54 (Acquisition of securities in companies with scrutinized business operations prohibited);
   The internal managers and direct external managers have been provided the updated scrutinized companies list and instructed not to purchase any company on the list. The most recent notification was emailed on September 1, 2016. The Investment Council's investment accounting department monitors the various account holdings.

5. A description of any progress made pursuant to §4-5-57 (Indirect holdings in actively managed investment funds).
   Notifications were made and staff will continue to monitor.

On July 1, 2010 the President of the United States signed H.R.2194: Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2009 which amended the Iran Sanctions Act of 1996. The State of South Dakota is subject to the federal law if it enacted divestiture legislation "before, on or after the date of the enactment of this Act". Both the state and federal law went into effect on July 1, 2010. The Federal requirements must be met to be granted safe harbor from legal action under the "Authority to Divest" provision.

Compliance with the federal law includes:

1. Providing written notice of the South Dakota law to the US Attorney General in the Department of Justice.
   Wade Hubbard, then counsel for SDRS, made the required notification in 2010.
2. Providing written notice to each company to which the South Dakota law applies.
   Letter notifications were sent as per §4-5-52.
3. Divestiture cannot apply to a company earlier than the date that is 90 days after the date of the written notice.
   The 90 day requirements are concurrent with the 90 day state law requirements in §4-5-52. No companies were sold for divestment purposes during the 90 day period.
4. Opportunity provided for companies to demonstrate that the measure shall not apply.
   Companies were given 90 days from notification to demonstrate in writing that the divestment requirements should not apply.
5. Make every effort to avoid erroneously targeting a company and verify that the company has targeted activities in Iran.
   §4-5-22 requires that a scrutinized company on the list be given the opportunity to clarify its scrutinized business operations in writing before divestment can occur.

Any changes to the Federal sanctions law, or its application, will be monitored to determine the effect on the Iran scrutinized companies list.

Sincerely,

Matthew L. Clark
State Investment Officer

MLC/tvo
Enclosures
Cc: South Dakota Investment Council

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MEMORANDUM

TO: South Dakota Investment Council and
Matthew L. Clark, CFA, State Investment Officer

FROM: Tammy V. Otten, CPA CFA
Assistant Investment Officer Fixed Income/Derivative

DATE: October 27, 2016

RE: Iran Scrutinized Companies List

The Iran divestment law (SDCL 4-5-48 to 4-5-60) went into effect on July 1, 2010. The Council utilizes two public lists, Colorado and Florida, to determine the South Dakota list of Iran scrutinized companies. The Colorado list is generally used with select additions from the Florida list.

The Colorado list was last updated on January 15, 2016 and the Florida list on August 2, 2016. As a result, there are no proposed changes to make to the Council's Iran scrutinized companies list approved at the August 29, 2016 Council meeting.

The Council passed motions in April and June of 2012 to keep three companies not on the Colorado list on the South Dakota list until removed from the Florida list. The three companies ware Sinopec, CNOOC Ltd. and China Oilfield Services. These companies remain on the August 2, 2016 Florida list and therefore will continue to be included on the South Dakota list.

The law allows SDRS to invest indirectly in companies on the list through pooled funds. SDRS holds approximately 1% of a pooled fund managed by Dimensional Fund Advisors (DFA). DFA has been informed of the law and their response is on file.

Staff continues to monitor changes to the Federal sanctions law, or its application, to determine the effect on the Iran scrutinized companies list. The US Government has lifted some but not all sanctions regarding companies engaging in transactions with Iran.

STAFF RECOMMENDATION: *Staff recommends no changes to the Council's Iran Scrutinized Companies List at the November 15, 2016 Council meeting.*

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MEMORANDUM

TO: South Dakota Investment Council and
Matthew L. Clark, CFA, State Investment Officer

FROM: Tammy V. Otten, CPA CFA
Assistant Investment Officer Fixed Income/Derivative

DATE: August 9, 2016

RE: Iran Scrutinized Companies List

The Iran divestment law (SDCL 4-5-48 to 4-5-60) went into effect on July 1, 2010. The Council utilizes two public lists, Colorado and Florida, to determine the South Dakota list of Iran scrutinized companies. The Colorado list is generally used with select additions from the Florida list.

There have been no changes reported to the Colorado List since the last report on January 15, 2016. On August 2, 2016, Florida added three subsidiaries to companies on their list: China Natural Gas Corp Ltd. (sub of CNPC); Petronas Global Sukuk (sub of Petronas); Sinopec Group Overseas Development 2016 Ltd (sub of CPCC Sinopec).

The Council passed motions in April and June of 2012 to keep three companies not on the Colorado list on the South Dakota list until removed from the Florida list. The three companies were Sinopec, CNOOC Ltd. and China Oilfield Services. These companies remain on the August 2, 2016 Florida list and therefore will continue to be included on the South Dakota list. The attachment lists the proposed South Dakota Iran scrutinized companies list with the Colorado and Florida comparisons.

The law allows SDRS to invest indirectly in companies on the list through pooled funds. SDRS holds approximately 1% of a pooled fund managed by Dimensional Fund Advisors (DFA). DFA has been informed of the law and their response is on file.

Staff continues to monitor changes to the Federal sanctions law, or its application, to determine the effect on the Iran scrutinized companies list. The US Government has lifted some but not all sanctions regarding companies engaging in transactions with Iran.

STAFF RECOMMENDATION: *Staff recommends that China Natural Gas Corp, Petronas Global Sukuk and Sinopec Group Overseas Development 2016 Ltd be added to the Council's Iran Scrutinized Companies List at the August 29, 2016 Council meeting.*

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attachments

Iran Scrutinized Companies List Comparison

South Dakota Investment Council List (effective 08/29/16; with changes denoted by ^^)	Colorado List 01/15/16 (changes denoted by ##)	Florida List 08/02/16 (changes denoted by **)
Aban Offshore Ltd	Aban Offshore Ltd	China BlueChemical Ltd
Chennai Petroleum Corporation Ltd	Chennai Petroleum Corporation Ltd	China National Petroleum Corporation (CNPC)
China BlueChemical Ltd	China National Petroleum Corporation (CNPC)	China Natural Gas Corp (CNPC sub) added **
China National Petroleum Corporation (CNPC)	CNPC HK Overseas Capital Ltd	China Petroleum & Chemical Corp (CPCC) Sinopec
China Natural Gas Corp (CNPC sub) added ^^	Daelim Industrial Co., Ltd.	China Oilfield Services Ltd
China Petroleum & Chemical Corp (CPCC) Sinopec	Dragon Oil PLC	CNOOC Ltd (China National Offshore Oil Corp)
China Oilfield Services Ltd	Gas District Cooling (Putrajaya) Sdn Bhd	CNOOC Finance Limited
CNOOC Ltd (China National Offshore Oil Corp)	KLCC Property Holdings Bhd	CNPC HK Overseas Capital Ltd
CNOOC Finance Limited	Kunlun Energy Company Ltd (CNPC Hong Kong Ltd)	COSL Finance (B.V.I) Limited
CNPC HK Overseas Capital Ltd	Midciti Resources Sdn Bhd	Daelim Industrial Co., Ltd.
Daelim Industrial Co., Ltd.	MISC Berhad	Engen Botswana
Dragon Oil PLC	MISC Capital Ltd	Gas District Cooling (Putrajaya) Sdn Bhd
Gas District Cooling (Putrajaya) Sdn Bhd	MTN Group Ltd	Gazprom OAO
Gazprom OAO	PetroChina Co Ltd	Gazprom Neft
Gazprom Neft	Petroliam Nasional (Petronas)	Indian Oil Corp Ltd (IOCL)
KLCC Property Holdings Bhd	Petronas Capital Limited	KLCC Property Holdings Bhd
Kunlun Energy Company Ltd (CNPC Hong Kong Ltd)	Petronas Chemicals Bhd	Kunlun Energy Company Ltd (CNPC Hong Kong Ltd)
Midciti Resources Sdn Bhd	Petronas Dagangan Bhd	Malaysia Marine & Heavy Engineering Holdings Bhd
MISC Berhad	Petronas Gas Berhad	Mangalore Refinery & Petrochemicals Ltd
MISC Capital Ltd		MISC Berhad
MTN Group Ltd		Mosenergo
PetroChina Co Ltd		Oil & Natural Gas Corp (ONGC)
Petroliam Nasional (Petronas)		ONGC Videsh Limited
Petronas Capital Limited		PetroChina Co Ltd
Petronas Chemicals Bhd		Petroliam Nasional (Petronas)
Petronas Dagangan Bhd		Petronas Capital Limited
Petronas Gas Berhad		Petronas Chemicals Bhd
Petronas Global Sukuk (Petronas sub) added ^^		Petronas Dagangan Bhd
Sinopec Capital 2013 Ltd		Petronas Gas Berhad
Sinopec Engineering Group Co Ltd		Petronas Global Sukuk (Petronas sub) added **
Sinopec Group Overseas Development 2013 Ltd		Putrajaya Management Sdn Bhd
Sinopec Group Overseas Development 2016 Ltd added ^^		Sinopec Capital 2013 Ltd
Sinopec Kantons Holdings Ltd		Sinopec Engineering Group Co Ltd
Sinopec Oilfield Service Corp (fka Sinopec Yizheng Chemical Fibre)		Sinopec Group Overseas Development 2013 Ltd
Sinopec Shanghai Petrochemical		Sinopec Group Overseas Development 2016 Ltd added **
		Sinopec Kantons Holdings Ltd
		Sinopec Oilfield Equipment Corporation (fka Kingdream PLC)
		Sinopec Oilfield Service Corp (fka Sinopec Yizheng Chemical Fibre)
		Sinopec Shanghai Petrochemical