JAN 15 2014

SOUTH DAKOTA INVESTMENT COUNCIL

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

January 13, 2015

Executive Board
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 memorandum to the Investment Council dated November 21, 2014 with recommended updates to the list is attached. The Council approved the updated list at their December 9, 2014 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 A list of all investments sold, redeemed, divested, or withdrawn in compliance with §4-5-53 (Divestiture of securities in companies with scrutinized business operations);
   No direct holdings were sold, redeemed, divested or withdrawn as a result of the Iran divestiture law.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 Thursday, December 11, 2014. The Investment Council's investment accounting department monitors the various account holdings. The December 31, 2014 report is attached.

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, 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.

On November 23, 2013 the White House released a statement entitled "Fact Sheet: First Step Understandings Regarding the Islamic Republic of Iran's Nuclear Program". In return for Iran halting enrichment of uranium, the P5+1 governments will provide limited, temporary and reversible relief of sanctions. These changes will be monitored to determine their effect on the Iran scrutinized companies list.

Sincerely,

Matthew L. Clark
State Investment Officer

MLC/tvo
Enclosures
Cc: South Dakota Investment Council

Compliance with SDCL 4-5-48 to 4-5-60 - Iran Divestiture

(Customized List 12/9/14 from Colorado Report dated 4/17/14 and Florida Report dated 9/23/14)

Holdings Date: 12/31/2014

	Company	Date Added to SDIC List	SDIC Holdings Fund	Portfolio	Ticker Sedol	Shares	First Hldgs Date	Written notice sent within 90 days of compilation Letter Sent	Response Received
	Scrutinized Companies with Activities in Iran Petroleum Energy Sector								
	Chennai Petroleum Corporation Ltd	02/06/2014	SDRS	DFA (Indirect)	6121563	4,103	12/31/2013		
	China BlueChemical Ltd	11/14/2013	SDRS	DFA (Indirect)	B1DN3X6	90,008	09/30/2013		
	China National Petroleum Corporation (CNPC)	05/31/2011		No holdings					
	CNPC HK Overseas Capital Ltd	05/31/2011		No holdings					
	Kunlun Energy Company Ltd (CNPC Hong Kong Ltd)	07/01/2010		No holdings					
^	PetroChina Co Ltd	07/01/2010		No holdings				02/12/13	none
^	CNOOC Ltd (China National Offshore Oil Corp)	05/31/2012		No holdings				07/09/12	07/30/12
	China Oilfield Services Ltd	05/31/2012		No holdings					
	CNOOC Finance Limited	11/14/2013		No holdings					
^	China Petroleum & Chemical Corp (CPCC) Sinopec	07/01/2010		No holdings					
	Sinopec Capital 2013 Ltd	03/31/2014		No holdings					
	Sinopec Engineering Group Co Ltd	03/31/2014		No holdings					
	Sinopec Group Overseas Development 2013 Ltd	03/31/2014		No holdings					
	Sinopec Kantons Holdings Ltd	07/01/2010	SDRS	DFA (Indirect)	6162692	17,025	07/01/2010	09/30/10	none
	Sinopec Shanghai Petrochemical	07/01/2010		No holdings					
	Sinopec Yizheng Chemical Fibre	07/01/2010	SDRS	DFA (Indirect)	6984669	27,102	02/28/2013		
	Daelim Industrial Co., Ltd.	12/31/2011		No holdings				02/21/12	none
	Gazprom OAO	07/01/2010		No holdings					
	Gazprom Neft	07/01/2010		No holdings					
	Hyundai Heavy Industries Co., Ltd.	12/31/2011		No holdings					
	Maire Technimont S.p.A.	12/31/2011		No holdings					
	MTN Group Ltd	12/31/2012		No holdings					
	Petroliam Nasional (Petronas)	07/01/2010		No holdings					
	Gas District Cooling (Putrajaya) Sdn Bhd	07/01/2010		No holdings					
	KLCC Property Holdings Bhd	07/01/2010	SDRS	DFA (Indirect)	B92NSW7	9,120	07/01/2010	09/30/10	none
	MISC Berhad	07/01/2010		No holdings					
	MISC Capital Ltd	07/01/2010		No holdings					
	Midciti Resources Sdn Bhd	07/01/2010		No holdings					
	Petronas Capital Limited	07/01/2010		No holdings					
	Petronas Chemicals Bhd	05/31/2011		No holdings					
	Petronas Dagangan Bhd	07/01/2010		No holdings					
	Petronas Gas Berhad	07/01/2010		No holdings					

* Recently added to list

^ Included in S&P 1200 benchmark

DFA Note: Holdings are an estimate based on total fair value as of 10/31/14

None	Brandes
None	Sanders
None	Internal

Council Meeting:

- **Iran Divestiture:** RICH SATTGAST MOVED, SECONDED BY JIM MEANS, TO APPROVE THE UPDATED IRAN SCRUTINIZED COMPANIES LIST DATED DECEMBER 9, 2014 AS PRESENTED. MOTION PASSED UNANIMOUSLY.
    - **ACTION:** The internal and external portfolio managers were informed of the updated list.

SOUTH DAKOTA INVESTMENT COUNCIL

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

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: November 21, 2014

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 were no changes to the most recent Colorado list dated April 17, 2014 from their prior list. Florida's most recent list dated September 23, 2014 removed two companies from their prior list, MISC Capital Ltd and Sinopec Finance. MISC Capital remains on the Colorado list.

The Council passed motions in April and June of 2012 to keep three companies not on the Colorado list at that time on the South Dakota list until removed from the Florida list. The three companies were Sinopec, CNOOC Ltd. and China Oilfield Services. Sinopec Finance has now been removed from the Florida list. The other companies remain on the September 23, 2014 Florida list and therefore will continue to be included on the South Dakota list.

The current South Dakota list was approved by the Council at the April 9, 2014 meeting with no change at the June 16 or September 9, 2014 meetings. The proposed list, first attachment, removes Sinopec Finance per the 2012 Council motions.

Per the second attachment, as of October 31, 2014 there were no companies on the list held directly by the internal or separately managed external managers. 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 RECOMMENDATION: *Staff recommends to change the Iran Scrutinized Companies List at the December 9, 2014 Council meeting to remove Sinopec Finance.*

tvo
attachments

Compliance with SDCL 4-5-48 to 4-5-60 - Iran Divestiture

(Customized List 12/9/14 from Colorado Report dated 4/17/14 and Florida Report dated 9/23/14)

Holdings Date: 10/31/2014

	Company	Date Added to SDIC List	SDIC Holdings: Fund	Portfolio	Ticker Sedol	Shares	First Hldgs Date	Written notice sent within 90 days of compilation: Letter Sent	Response Received
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	China National Petroleum Corporation (CNPC)	05/31/2011		No holdings					
	CNPC HK Overseas Capital Ltd	05/31/2011		No holdings					
	Kunlun Energy Company Ltd (CNPC Hong Kong Ltd)	07/01/2010		No holdings					
^	PetroChina Co Ltd	07/01/2010		No holdings				02/12/13	none
^	CNOOC Ltd (China National Offshore Oil Corp)	05/31/2012		No holdings				07/09/12	07/30/12
	China Oilfield Services Ltd	05/31/2012		No holdings					
	CNOOC Finance Limited	11/14/2013		No holdings					
^	China Petroleum & Chemical Corp (CPCC) Sinopec	07/01/2010		No holdings					
	Sinopec Capital 2013 Ltd	03/31/2014		No holdings					
	Sinopec Engineering Group Co Ltd	03/31/2014		No holdings					
	Sinopec Group Overseas Development 2013 Ltd	03/31/2014		No holdings					
	Sinopec Kantons Holdings Ltd	07/01/2010	SDRS	DFA (Indirect)	6162692	17,025	07/01/2010	09/30/10	none
	Sinopec Shanghai Petrochemical	07/01/2010		No holdings					
	Sinopec Yizheng Chemical Fibre	07/01/2010	SDRS	DFA (Indirect)	6984669	27,102	02/28/2013		
	Daelim Industrial Co., Ltd.	12/31/2011		No holdings				02/21/12	none
	Gazprom OAO	07/01/2010		No holdings					
	Gazprom Neft	07/01/2010		No holdings					
	Hyundai Heavy Industries Co., Ltd.	12/31/2011		No holdings					
	Maire Technimont S.p.A.	12/31/2011		No holdings					
	MTN Group Ltd	12/31/2012		No holdings					
	Petroliam Nasional (Petronas)	07/01/2010		No holdings					
	Gas District Cooling (Putrajaya) Sdn Bhd	07/01/2010		No holdings					
	KLCC Property Holdings Bhd	07/01/2010	SDRS	DFA (Indirect)	B92NSW7	9,120	07/01/2010	09/30/10	none
	MISC Berhad	07/01/2010		No holdings					
	MISC Capital Ltd	07/01/2010		No holdings					
	Midciti Resources Sdn Bhd	07/01/2010		No holdings					
	Petronas Capital Limited	07/01/2010		No holdings					
	Petronas Chemicals Bhd	05/31/2011		No holdings					
	Petronas Dagangan Bhd	07/01/2010		No holdings					
	Petronas Gas Berhad	07/01/2010		No holdings					

* Recently added to list

^ Included in S&P 1200 benchmark

DFA Note: Holdings are an estimate based on total fair value as of 10/31/14

None	Brandes
None	Sanders
None	Internal

Iran Scrutinized Companies List Comparison

South Dakota Investment Council List (effective 12/9/14; with changes denoted by ^^)		Colorado List 04/17/14 (changes denoted by ##)	Florida List 09/23/14 (changes denoted by **)	
Chennai Petroleum Corporation Ltd		Chennai Petroleum Corporation Ltd		
China BlueChemical Ltd			China BlueChemical Ltd	
China National Petroleum Corporation (CNPC)		China National Petroleum Corporation (CNPC)	China National Petroleum Corporation (CNPC)	
China Oilfield Services Ltd			China Oilfield Services Ltd	
China Petroleum & Chemical Corp (CPCC) Sinopec			China Petroleum & Chemical Corp (CPCC) Sinopec	
CNOOC Finance Limited			CNOOC Finance Limited	
CNOOC Ltd (China National Offshore Oil Corp)			CNOOC Ltd (China National Offshore Oil Corp)	
CNPC HK Overseas Capital Ltd		CNPC HK Overseas Capital Ltd	CNPC HK Overseas Capital Ltd	
			COSL Finance (BVI) Limited	
Daelim Industrial Co., Ltd.		Daelim Industrial Co., Ltd.	Daelim Industrial Co., Ltd.	
Gas District Cooling (Putrajaya) Sdn Bhd		Gas District Cooling (Putrajaya) Sdn Bhd	Gas District Cooling (Putrajaya) Sdn Bhd	
Gazprom OAO			Gazprom OAO	
Gazprom Neft		Gazprom Neft	Gazprom Neft	
Hyundai Heavy Industries Co., Ltd.		Hyundai Heavy Industries Co., Ltd.		
			Indian Oil Corp Ltd (IOCL)	
KLCC Property Holdings Bhd		KLCC Property Holdings Bhd	KLCC Property Holdings Bhd	
Kunlun Energy Company Ltd (CNPC Hong Kong Ltd)		Kunlun Energy Company Ltd (CNPC Hong Kong Ltd)	Kunlun Energy Company Ltd (CNPC Hong Kong Ltd)	
Maire Technimont S.p.A.		Maire Technimont S.p.A.	Maire Technimont S.p.A.	
			Malaysia Marine & Heavy Engineering Holdings Bhd	
			Mangalore Refinery & Petrochemicals Ltd	
Midciti Resources Sdn Bhd		Midciti Resources Sdn Bhd	Midciti Sukuk Bhd (fka Midciti Resources Sdn Bhd)	
MISC Berhad		MISC Berhad	MISC Berhad	
MISC Capital Ltd		MISC Capital Ltd		
			Mosenergo	
MTN Group Ltd		MTN Group Ltd		
			Oil & Natural Gas Corp (ONGC)	
			ONGC Videsh Limited	
PetroChina Co Ltd		PetroChina Co Ltd	PetroChina Co Ltd	
Petroliam Nasional (Petronas)		Petroliam Nasional (Petronas)	Petroliam Nasional (Petronas)	
Petronas Capital Limited		Petronas Capital Limited	Petronas Capital Limited	
Petronas Chemicals Bhd		Petronas Chemicals Bhd	Petronas Chemicals Bhd	
Petronas Dagangan Bhd		Petronas Dagangan Bhd	Petronas Dagangan Bhd	
Petronas Gas Berhad		Petronas Gas Berhad	Petronas Gas Berhad	
			Putrajaya Management Sdn Bhd	
Sinopec Capital 2013 Ltd			Sinopec Capital 2013 Ltd	
Sinopec Engineering Group Co Ltd			Sinopec Engineering Group Co Ltd	
Sinopec Group Overseas Development 2013 Ltd			Sinopec Group Overseas Development 2013 Ltd	
Sinopec Kantons Holdings Ltd			Sinopec Kantons Holdings Ltd	
Sinopec Shanghai Petrochemical			Sinopec Shanghai Petrochemical	
Sinopec Yizheng Chemical Fibre			Sinopec Yizheng Chemical Fibre	
			MISC Capital Ltd	removed **
Sinopec Finance	removed ^^		Sinopec Finance	removed **