CalPERS

California Public Employees' Retirement System

California Public Divest from Iran Act
Annual Legislative Report

December 31, 2013

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Iran Related Investments – Sixth Annual Legislative Report
December 31, 2013

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Executive Summary

1. This Legislative Report sets out CalPERS implementation of the California Public Divest from Iran Act (Iran Act) during 2013. The Iran Act requires that CalPERS identify, notify, and make a determination to divest investments in companies engaged in the international nuclear, energy, defense, oil and gas sectors, subject to CalPERS overriding fiduciary duty, and finally liquidate investments in such companies.

2. During the period covered a number of companies announced they were making significant progress towards curtailing their activities in Iran.

3. CalPERS remains divested from three companies which continue to have business activities in Iran or were unresponsive to CalPERS engagement: CNOOC Ltd., Daelim Industrial Co., Ltd., and Oil India Limited.

4. CalPERS reviewed four companies and determined they were no longer subject to the Iran Act: Lukoil OAO, Oil & Natural Gas Corporation (ONGC), Edison Spa, and Petronet LNG.

5. CalPERS continues to identify companies potentially subject to the Iran Act, to notify them of the law's provisions, and call for their withdrawal from Iran.

Introduction

This sixth report to the California Legislature is provided by the California Public Employees' Retirement System (CalPERS) under the requirements of Government Code sections 7513.7 and 16642, commonly known as the California Public Divest from Iran Act (Iran Act).

CalPERS is the largest public pension plan in the United States, responsible for $275 billion in global assets, which are invested to provide retirement and health benefits for over 1.6 million Californians. The CalPERS Board has sole and exclusive responsibility to administer the System in a manner that will assure prompt delivery of benefits to its participants and their beneficiaries. The assets of the System are trust funds that must be held for the exclusive purpose of providing benefits to participants in the retirement System and their beneficiaries and defraying the reasonable expenses of administering the System.

Iran Act Implementation

CalPERS has diligently and comprehensively implemented the requirements of the Iran Act throughout the reporting period and from the time the legislation became effective on January 1, 2008.

The CalPERS Board, senior management and staff continue to devote significant time and attention to ensuring that the provisions of the Iran Act are fully implemented. This report charts further significant progress towards meeting the objectives of the Iran Act, which are to ensure that companies in relevant sectors curtail or cease business operations in the country. The details are set out in the tables which follow.

National events continue to have impact. On June 15, 2013, Hassan Rouhani was declared the winner of Iran's 11th presidential election. The White House responded to the announcement stating, "We call on him to use the opportunity to set Iran on a different course for the future: addressing international concerns about Iran's nuclear program, taking forward a constructive relationship with the international community, and improving the political and human rights situation for the people of Iran." Since the election, it has been reported talks between the five permanent members of the UN Security Council (U.S., Britain, France, Russia, China and Germany) are due to take place with Iran on its nuclear program.

In early September, the United States extended waivers on Iran sanctions for six months to Japan and 10 countries of the European Union for reducing their crude oil purchases from Iran. In December, the U.S. State Department will decide whether to extend waivers to China, India, and South Korea, and six other countries that consume Iranian oil. In compliance with the Iran Act, CalPERS continues to monitor companies with pending waivers and will follow-up as needed.

CalPERS also continues to monitor the progress of industries taking steps to exit Iran. It has been reported that international shipping companies, such as China Shipping Containers Lines, have exited Iran due to tough U.S. sanctions.

Requirements of the Iran Act

The Iran Act sets out a number of requirements, as follows:

The legislation requires that CalPERS identify companies with business operations in Iran, as defined in the Iran Act, or that provide revenue to the government of Iran.

Under the Iran Act, a company has business operations in Iran if the company meets the following criteria:

1. The company (A) is invested in or engaged in business operations with entities in the defense or nuclear sectors of Iran or (B) is invested in or engaged in business operations with entities involved in the development of petroleum or natural gas resources of Iran, and that company is subject to sanctions under Public Law 104-172 (any entity that has invested at least $20 million in any year since 1996 to develop petroleum or natural gas resources of Iran), as renewed and amended in 2001 and 2006.

2. The company has demonstrated complicity with an Iranian organization that has been labeled as a terrorist organization by the United States government. (Gov. Code §7513.7(b).)

"Business operations" is defined in the Iran Act to mean "maintaining, selling, or leasing equipment, facilities, personnel, or any other apparatus of business or commerce in Iran, including the ownership or possession of real or personal property located in Iran." (Gov. Code §7513.7(a)(2).)

- **Identification**

For this report, CalPERS utilized the U.S. Government Accountability Office (GAO) report on Iran sanctions for the initial identification of companies subject to the Iran Act. In addition, CalPERS collaborates with the California Department of General Service Office of Policies Procedures and Legislation (DGS).

We share findings with CalSTRS, and vice versa. CalPERS lists may not be consistent with CalSTRS and DGS regarding identified company names for reasons which could include but are not limited to:

a) Timing: Every effort will be made to keep each other current on company engagement and status; however there could be instances where CalPERS and DGS lists are not consistent due to the timing of our individual engagement with companies.

b) CalPERS Portfolio Holdings: There could be instances where CalPERS does not hold investments in companies that have been identified by DGS as subject to the provisions of the Iranian Contacting Act.

- **Notification**

Once identified, CalPERS has provided timely notification to each company, setting out the provisions of the Iran Act, and seeking a response which can be properly assessed. To ensure the highest level of engagement, letters have been couriered to the most senior board member of each company, for example, the Chairman, CEO or President.

Staff actively pursue a substantive response to these corporate engagements, for example by identifying parent companies where decisions will be made, and if need be, making use of translating services to ensure clear communication.

- **Determination**

Following the communication with identified companies, staff determines their status under the Iran Act. The companies' responses are analyzed by CalPERS staff to determine the applicability of the Iran Act's provisions. Where company activity is deemed to be subject to the Iran Act, staff assesses whether the company is taking substantial action to withdraw, or making substantial progress towards this.

In October 2011, Assembly Bill 1151, was enacted which amended the Iran Act, to its current status as applicable to CalPERS. AB 1151 requires CalPERS to determine that a company is taking substantial actions to end or curtail business operations in Iran. This must also be supported by findings adopted by a rollcall vote of the CalPERS Board following a presentation and discussion of the findings in open session.

- **Divestment Policy**

The CalPERS Investment Committee adopted a policy on divestment, which builds on the concept of fiduciary duty and some of the possible implications of divestment on these responsibilities. The policy defines instances when CalPERS will undertake divestment as follows:

1. CalPERS will sell targeted company investments or refrain from making them to the extent investment in the targeted company is imprudent and inconsistent with fiduciary duty.

2. CalPERS will comply with federal laws requiring divesting, if any.

3. To the extent required by law and consistent with fiduciary duty, CalPERS will comply with constitutional California state laws that require divesting.

- **Fiduciary analysis**

The Iran Act requires that CalPERS divest its shares in those companies that have not provided evidence of exemption from the Iran Act's provision, within 90 days of being notified. However, the Iran Act specifies that this does not "require the board to take action as described…unless the board determines, in good faith, that the action…is consistent with the fiduciary responsibilities of the board as described in Section 17 of Article XVI of the California Constitution." (Gov Code §7513.7(k).)

Hence, the Iran Act requires that divestment be consistent with the California Constitution which determines that the board of CalPERS acts with a singular focus on the purpose of providing benefits to participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the System.

- **Liquidation**

The Iran Act requires the sale of any investments in companies subject to divestment within an 18 month time period from the point of such determination.

Reporting Requirement of Section 7513.7(i)(3) – Whether the Board has Reduced its Investments in any Companies Described in Section 7513.7(b) ("Covered Companies")

CalPERS is currently divested from three companies which continue to have business activities in Iran or were unresponsive to CalPERS engagement: CNOOC Ltd., Daelim Industrial Co., Ltd., and Oil India Limited.

Reporting Requirements of Section 7513.7(i)(6) – Detailed Summary of Investments Transferred to Funds or Accounts Devoid of Companies with Business Operations in Iran as Described in Section 7513.7(f)

CalPERS investment activity in the types of fund structures referenced in section 7513.7(f)(1)(2)(3) do not contain exposure to companies with Iran business operations to the best of staff's knowledge. No transfers have been made to different fund or account structures.

Progress on Company Withdrawal from Iran

The table that follows sets forth CalPERS current holdings in the non-US companies that have been identified as having business operations in Iran, as defined by the legislation.

The progress on company withdrawal from Iran or exemption from the Iran Act is as follows:

1. (Table 1) 5 companies under engagement by CalPERS.

2. (Table 2) 8 companies being monitored by CalPERS.

3. (Table 3) 3 companies restricted from ownership by CalPERS pursuant to the Iran Act.

Conclusion

CalPERS continues to implement the requirements of the Iran Act. Through this process CalPERS has tracked significant progress in company withdrawal and reduction of activity in Iran. In part, this reflects the growing geo-political risk in the country, but it also demonstrates a response to shareowner engagement and economic sanctions. CalPERS will continue to identify, notify, and make a determination to divest and liquidate investments in companies engaged in specified business operations in Iran, subject to CalPERS overriding fiduciary duty.

CalPERS will continue to ensure its compliance with the Iran Act, that the Board is apprised of developments, and that staff is positioned to review CalPERS response as required.

TABLE 1: 5 Companies Under Engagement by CalPERS				
Company Name (Domicile)	***Summary of Ties to Iran***	***Summary of Changes From 2012***	***Shares Held by CalPERS 10/31/2013***	***Market Value ($) of Shares Held by CalPERS 10/31/2013***
AF AB (Sweden)	In 2007, the AF Group acquired Swiss energy consulting company Colenco, establishing a strong foothold in the energy industry. Colenco maintains a strong presence in Iran, establishing a representative office in 2004 to construct a power plant in Iran. This project is detailed on the company's website, where Colenco also notes that it "anticipates a long term commitment to the development challenges of Iran.	CalPERS has initiated engagement with AF AB.	96,044	$3,042,631.41
Alfa Laval AB (Sweden)	Alfa Laval sells its products in Iran through an Iranian website, in addition to maintaining an office in Tehran. Through this site, Alfa Laval makes available many products that have a known application in the nuclear energy industry. For example, Alfa Laval advertises the benefits of installing its plate heat exchangers in nuclear power plants.	CalPERS has initiated engagement with Alfa Laval AB.	867,833	$19,848,291.08
China BlueChemical Ltd. (China)	China BlueChem is a subsidiary that engages in production of mineral fertilisers, methanol and related chemicals under the parent company, China National Offshore Oil Corporation ("CNOOC"), which is the third largest petroleum company in China.	CalPERS has initiated engagement with China BlueChemical Ltd.	4,220,000	$2,710,623.57
Mitsubishi Corporation (Japan)	Mitsubishi sells petroleum products, crude oil, carbon, liquefied natural gas, power and electrical systems, ships, and automobiles to Iran, among other things, according to its website. From 2000-20009, the company was the recipient of $337.7 million US federal funds.	CalPERS has initiated engagement with Mitsubishi Corporation.	5,709,751	$115,347,329.34
Sinopec Yizheng Chemical (China)	"Sinopec, through Unipec and state-trader Zhuhai Zhenrong Corp, had scheduled to lift some 500,000 barrels per day of Iranian oil this month, traders said. Sinopec slashed its purchases of Iran crude by more than half in the first quarter in a dispute with Tehran over the cost of the crude and payment terms as it negotiated a 2012 supply contract. Iranian shipments to Sinopec started to	CalPERS has no investment position in Sinopec Corporation. In addition, CalPERS has no investment position in the two subsidiaries elevated – Unipec and Zhuhai Zhenrong Corp. However, CalPERS currently holds subsidiary Sinopec	2,500,000	$693,275.55

TABLE 1: 5 Companies Under Engagement by CalPERS				
Company Name (Domicile)	***Summary of Ties to Iran***	***Summary of Changes From 2012***	***Shares Held by CalPERS 10/31/2013***	***Market Value ($) of Shares Held by CalPERS 10/31/2013***
	rebound in April following the end of the dispute, but the damage to Iran's market share in China had already been done." (Reuters, "Exclusive: Freight dispute risks delay in Iran oil to China - sources," 7/2/12)	Yizheng Chemical. Staff currently has no evidence the Company is subject to the Iran Act. CalPERS is taking precautionary efforts to ensure the company has no business operations in Iran.		
		Category Total:	**13,393,628**	**$141,642,150.95**

TABLE 2: 8 Companies Being Monitored by CalPERS				
Company Name (Domicile)	***Summary of Ties to Iran***	***Summary of Changes From 2012***	***Shares Held by CalPERS 10/31/2013***	***Market Value ($) of Shares Held by CalPERS 10/31/2013***
Edison Spa (Italy)	As of September 2010, Italy-based Edison is involved in Iran through a four-year exploration deal signed in January 2008, regarding the offshore oil and gas block Dayyer, tendered by the state-owned National Iranian Oil Company (NIOC). The exploration contract signed between Edison and the NIOC for the Dayyer block envisages an exploration period of four years, during which studies will be made, seismic data will be acquired and processed, and one exploration well will be drilled. Investments will be approximately EUR 30 million (USD 40 million) in total. If reserves are discovered, Edison will directly enter the development phase.	On July 6, 2012, the U.S. Department of State announced Edison Spa withdrew from Iran's energy sector, specifically its contract to explore Iran's Dayyer natural gas field and pledged not to engage in activity within Iran in the future that is subject to U.S. sanctions. In addition, the December 2012, Government Accountability Office (GAO), reported Edison Spa has withdrawn from Iran. At the November 2013, Investment Committee CalPERS Board approved Edison Spa not subject to the divestment provisions of the Iran Act.	0	$0
Lukoil (Russia)	"Russian oil giant LUKOIL has resumed gasoline sales into Iran in partnership with China's state-run firm Zhuhai Zhenrong, even as the United States urges the international community to be tough with Tehran... A LUKOIL spokesman said 'one-off deliveries (to Iran after it decided to stop	In correspondence with Lukoil dated October 12, 2012, the Company confirmed it was not engaged or invested in any business operations applicable to the Iran Act.	1,351,133	$88,482,083.88

TABLE 2: 8 Companies Being Monitored by CalPERS				
Company Name (Domicile)	***Summary of Ties to Iran***	***Summary of Changes From 2012***	***Shares Held by CalPERS 10/31/2013***	***Market Value ($) of Shares Held by CalPERS 10/31/2013***
	the shipments in spring) took place within the frame of previously signed contracts." (Reuters,"Russia resumes gasoline sales to Iran," 8/11/10).	In addition, the December 2012, Government Accountability Office (GAO), reported Lukoil has withdrawn from Iran. At the November 2013, Investment Committee CalPERS Board approved Lukoil not subject to the divestment provisions of the Iran Act.		
KunLun Energy (Formerly CNPC Hong Kong) (Hong Kong)	CNPC Hong Kong announced its name change in KunLun Energy Company Limited (Kunlun) in February 2010. Kunlun is a publicly traded subsidiary of the state-owned China National Petroleum Corporation (Sinopec), which holds a 52.7 percent interest. It is assessed as tied to Iran because of its parent company's ties. Sinopec is deeply involved in Iran through oil exploration contracts and interests, refining, and commercialization of gas processing products. Kunlun has had a service contract for the Masjed Soleiman oilfields in Iran and has previously participated in the development of Block 11 of the South Pars gas field. Also, Kunlun is negotiating a seven-year contract to develop Block 14 of the South Pars gas field, which would give CNPC access to the estimated 370 billion cubic meters of gas reserves. In late July 2008, the Iranian government reached a USD100-billion-worth agreement with Sinopec, in which the firm agreed to purchase Iranian natural gas and help develop one of Iran's largest oil fields, according to an editorial in the Washington Times newspaper. In exchange, Tehran agreed to export 150,000 barrels of oil per day to China at "market prices." According to a ChinaDaily.com report in December 2007, the Iranian Oil Ministry awarded a USD2-billion contract for engineering services at the Yadavaran oilfield to Sinopec, along with 51 percent ownership of the project. This will be carried out in two subsequent phases of four and three years, respectively.	There are no changes since 2012. CalPERS has no current investment position in KunLun Energy.	0	$0

TABLE 2:
8 Companies Being Monitored by CalPERS

Company Name (Domicile)	*Summary of Ties to Iran*	*Summary of Changes From 2012*	*Shares Held by CalPERS 10/31/2013*	*Market Value ($) of Shares Held by CalPERS 10/31/2013*
MISC Berhad (Malaysia)	MISC Berhad is the leading international shipping line of Malaysia. MISC Berhad operates a fleet of over 100 vessels, specializing in the shipping of energy products such as liquefied natural gas and petroleum (Company Website). MISC Berhad ships cargo to the Iranian port of Bandar Abbas, and describes its specific shipping policy for the port on its website. The company lists three other ports of call in Iran on its website.	There are no changes since 2012. CalPERS has no current investment position in MISC Berhad.	0	$0
Oil & Natural Gas (ONGC) (India)	According to media reports in 2011, Oil & Natural Gas Corp., have been exploring how to jointly develop energy resources with Iranian partners.	In correspondence with ONGC dated January 11, 2013, the Company confirmed it was not engaged or invested in any business operations applicable to the Iran Act. At the November 2013, Investment Committee CalPERS Board approved ONGC not subject to the divestment provisions of the Iran Act.	0	$0
PetroChina (China)	According to Iranian news media dated September 4, 2011, PetroChina will invest $8.4 billion to develop the Azadegan oilfield.	There are no changes since 2012. CalPERS has no current investment position in PetroChina.	0	$0
Petronas (Malaysia)	In a statement issued October 5, 2010, Datuk Shamsul Azhar Abbas CEO of Petroliam Nasional Bhd (Petronas) said that the company has no intention of leaving Iran's market at the present time despite U.S. threats to punish companies continuing trade with the country.	There are no changes since 2012. CalPERS has no current investment position in Petronas.	0	$0
Petronet LNG (India)	According to an Indian news agency, Petronet signed a Memorandum of Understanding in December 2009 to develop South Pars phase 12 and support Iran's building of a new LNG plant. Petronet holds a 20% stake in a consortium that includes ONGC Videsh (OVL) and the Hinduja Group (PTI, December 2, 2009). According to an Indian news service, the plant is being built by Iran LNG Co., a subsidiary of the National Iranian Oil Company (NIOC), at Tombak Port in Iran. As of November 2009, the plant was 25%	In correspondence with Petronet LNG dated January 16, 2013, the Company confirmed the 2009 business development discussions that took place did not translate into any business operations. In addition, the company confirmed it was not engaged or invested in any business operations applicable to the Iran Act.	0	$0

TABLE 2: 8 Companies Being Monitored by CalPERS				
Company Name (Domicile)	***Summary of Ties to Iran***	***Summary of Changes From 2012***	***Shares Held by CalPERS 10/31/2013***	***Market Value ($) of Shares Held by CalPERS 10/31/2013***
	complete and is expected to become operational in 2011 (Express India, November 16, 2009). The US administration had in May named Petronet LNG among the 41 firms worldwide having energy ties with Iran, an act for which it may impose sanctions on them. (Indian Express, "Oil PSUs seeking legal opinion on sanctions," 7/22/2010)	At the November 2013, Investment Committee CalPERS Board approved Petronet LNG not subject to the divestment provisions of the Iran Act.		
		Category Total:	**1,351,133**	**$88,482,083.88**

TABLE 3: 3 Companies Restricted from Ownership by CalPERS Pursuant to the Iran Act				
Company Name (Domicile)	***Summary of Ties to Iran***	***Summary of Changes From 2012***	***Shares Held by CalPERS 10/31/2013***	***Market Value ($) of Shares Held by CalPERS 10/31/2013***
CNOOC Ltd. (Hong Kong)	CNOOC Ltd. is a listed subsidiary of China National Offshore Oil Corp. (CNOOC) which is 70-percent owned by the Government of the People's Republic of China. CNOOC Ltd. itself does not have operations in Iran. Parent company CNOOC has stated that its affiliates or subsidiaries can be involved in restricted countries by the United States Sanctions Acts and State-level legislations. In March 2009, Iran's oil ministry stated that CNOOC had reached a deal to develop the North Pars gas field in the Persian Gulf (NP). CNOOC is reportedly expected to invest USD5 billion in upstream gas projects, and USD11 billion in gas liquefaction (downstream) facilities, until 2012. Iran and CNOOC had already signed a Memorandum of Understanding in 2006 for gas supply from Iran to China. In July 2009, CNOOC was reported by the Iranian Offshore Oil Company's managing director to have signed a cooperation agreement with Malaysia-based Amona for the development of Resalat oilfield. In its 2009 form 20-F, issued in April 2010, CNOOC Ltd. stated that the company is possibly subject to United States sanctions, as a result of "current or future activities by CNOOC Ltd. or its affiliates in countries that	There are no changes since 2012. In May 2011, the CalPERS Investment Committee approved divestment of shares in CNOOC Ltd. The Company, through its parent, has failed to take substantial action to curtail business operations in Iran.	0	$0

TABLE 3: 3 Companies Restricted from Ownership by CalPERS Pursuant to the Iran Act				
Company Name (Domicile)	***Summary of Ties to Iran***	***Summary of Changes From 2012***	***Shares Held by CalPERS 10/31/2013***	***Market Value ($) of Shares Held by CalPERS 10/31/2013***
	are the subject of U.S. sanctions as Iran and Sudan."			
Daelim Industrial Co. (Korea)	Daelim Industrial Co.'s website lists several offices in Iran, where the company is active. Currently, Daelim Industrial is collaborating with Iranian companies to upgrade the Esfahan refinery in Iran. In addition, it has secured a deal to build liquefied natural gas and liquefied petroleum gas tanks in Tombak, located in southern Iran. The Esfahan refinery project, which is to be completed in 2011, aims to give Iran more refining ability so that it no longer needs to import fuel. In 2009, it was reported that Daelim has secured a deal to build storage tanks, provide a fully integrated communication solution to equipment for an onshore gas plant and three offshore platforms of the South Pars gas field in Iran, and construct a gas refinery and an ethyl benzene plant in Iran. The company's 2008 Annual Report listed the following projects in progress in Iran: LNG & LPG Tank (2007-2011), Esfahan Refinery Upgrading Project (2007-2012) and AKPC LDPE Project (2005-2009). Daelim is carrying out the construction of a total of five LNG and LPG storage tanks on a turnkey basis in association with local contractor Ghorb Nooh. The client is National Iranian Oil Company, and the work is valued at USD 320 million. The company's 2008 Annual Report lists the following projects in progress in Iran: LNG & LPG Tank (2007-2011), Esfahan Refinery Upgrading Project (2007-2012) and AKPC LDPE Project (2005-2009). Daelim is carrying out the construction of a total of five LNG and LPG storage tanks on a turnkey basis in association with local contractor Ghorb Nooh. The client is National Iranian Oil Company, and the work is valued at USD 320 million. Three of the LNG tanks are to have capacities of 140,000 metric tons each and two capacities of 30,000 metric tons each in Tombak, southern Iran. Daelim awarded a contract to Metito, a	There are no changes since 2012. In May 2011, the CalPERS Investment Committee approved divestment of shares in Daelim Industrial. The Company has been unresponsive to CalPERS request to take substantial action to curtail business operations in Iran.	0	$0

TABLE 3: 3 Companies Restricted from Ownership by CalPERS Pursuant to the Iran Act				
Company Name (Domicile)	***Summary of Ties to Iran***	***Summary of Changes From 2012***	***Shares Held by CalPERS 10/31/2013***	***Market Value ($) of Shares Held by CalPERS 10/31/2013***
	wastewater treatment company, to install a major industrial system for phases 6, 7 and 8 of the gas field development in Iran. Daelim Industrial won contracts as part of a consortium to construct a gas refinery and an ethyl benzene plant.			
Oil India Limited (India)	According to the company's 2009 annual report, Oil India has an exploration service contract in the Farsi Oil Block. The company, along with its partners ONGC Videsh (OVL) and Oil India Corporation (OIC) holds interest in the Farsi oil field. The US administration had in May 2010 named Oil India Ltd among the 41 firms worldwide having energy ties with Iran, an act for which it may impose sanctions on them." (Economic Times, "Oil PSUs to seek legal opinion of impact of sanctions on Iran," July 22, 2010).	There are no changes since 2012. In October 2012, the CalPERS Investment Committee approved a block in future share purchase in Oil India. The company did not demonstrate that they are taking substantial action or curtailing business operations in Iran.	0	$0
		Category Total	**0**	**$0**

Appendix A:

Definitions

"**Authorized business operations**" – A United States company that is authorized by the federal government to have business operations in Iran.

"**Board**" – The Board of Administration of the Public Employees' Retirement System or the Teachers' Retirement Board of the State Teachers' Retirement System, as applicable.

"**Business operations**" – The company (A) is invested in or engaged in business operations with entities in the defense or nuclear sectors of Iran or (B) is invested in or engaged in business operations with entities involved in the development of petroleum or natural gas resources of Iran, and that company is subject to sanctions under Public Law 104-172 (any entity that has invested at least $20 million in any year since 1996 to develop petroleum or natural gas resources of Iran), as renewed and amended in 2001 and 2006.

"**Humanitarian activity**" – A company primarily engaged in supplying goods or services intended to relieve human suffering in Iran or a company that promotes health, education, or journalistic, religious, or welfare activities in Iran.

"**Substantial action**" – A boycott of the government of Iran, curtailing business in Iran or selling company assets, equipment or real and personal property located in Iran.

Appendix B:

Requirements

The implementation steps and requirements specified within the Iran Act are:

1. Identification of companies, through publicly available information, with activities in the specified areas.

2. Notification to such companies that their activities may make them subject to divestment unless they take “substantial action” within 90 days.

3. Determination by June 30, 2008 which companies may be subject to “divestment” due to lack of “substantial action” or progress toward it.

4. Monitor and review companies making sufficient progress toward “substantial action” for up to 12 months from the initial notification.

5. Determination: Upon determination that a company is subject to “divestment”, making no further investments into such company.

6. Fiduciary analysis to determine that actions to be taken are consistent with the boards’ fiduciary responsibilities as established in the “California Constitution, article 16, section 17”.

7. Liquidation within 18 months of investments determined to be subject to “divestment”.

8. Report annually (beginning January 1, 2009) to the California Legislature regarding the status of CalPERS compliance with the Iran Act (see note below).

Appendix C:

CalPERS Divestment Determination Process

Staff implements the following process to determine the costs and values of divestment under Government Code Section 7513.6:

A. Firms Involved: Obtain list of companies considered for divestment.

B. Approximate Value: Determine the market value of CalPERS holdings in each individual company as well as the approximate total value of the list of companies considered for divestment.

C. Divestment Determination Steps:

   1. Determine the company has failed to complete, or has failed to make sufficient progress towards substantial action within the time specified by statute.

   2. Estimate the trading costs and price impact using an applicable trading cost model, and estimate how long it would take to sell the securities after the decision to divest.

   3. Use a portfolio construction process and simulate reinvestment of the proceeds of the sales of divested securities, aiming at a minimal expected performance impact on the appropriate asset class portfolio.

   4. Estimate the execution costs of the reinvestment trade list, using the appropriate trading cost model.

   5. Use the new expected performance impact estimate (from No. 3 above) to calculate the performance at risk (PAR) resulting from divestment.

   6. Include any expected loss-of-opportunity performance impact with the costs of divestment.

   7. Calculate the costs and values as determined above.

   8. Gather and analyze all additional facts that could be relevant to a divestment decision

   9. Review with Fiduciary Counsel and General Pension Consultant, and prepare a recommendation to the Board: either in favor of divestment, or in favor of a Section 7513.6(k) determination.

   10. Submit the recommendation to the Investment Committee.

   11. If the decision is to divest, isolate the affected securities and immediately notify all appropriate managers to cease purchasing the identified entity's securities.