

**MINNESOTA
STATE
BOARD OF
INVESTMENT**



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DATE: February 11, 2021
TO: Minnesota Legislative Reference Library
FROM: Mansco Perry III *MP3*
Executive Director and Chief Investment Officer

SUBJECT: Report on Iran Required by *Minnesota Statutes*, Section 11A.244

Minnesota Statutes, section 11A.244, requires the State Board of Investment (SBI) to submit a report to the chairs of the legislative committees and divisions with jurisdiction over the SBI concerning the SBI's identification of, communication with and discontinuance of investment in certain companies with operations in Iran.

Section 11A.244 specifies that the SBI include in the report a:

1. Summary of correspondence with companies engaged by the SBI as outlined in statute.
2. Recent list of scrutinized companies that are unauthorized for purchase. The SBI's scrutinized companies list is the same list used for companies prohibited for purchase.
3. List of all companies removed from the portfolio to comply with statute.
4. Description of any progress in having investment management firms create investment funds that exclude Iran companies.

As provided for in Section 11A.244, subdivision 2, the SBI retains Institutional Shareholder Services, Inc. (ISS) to provide Iran research services regarding companies with business operations in Iran.

During the 2020 calendar year, the unauthorized holdings list had 6 companies added and 5 companies removed. There were no companies added to the divestment list during the 2020 calendar year.

Attachment 1 displays the summary of correspondence by the SBI to the scrutinized Iran companies in which the SBI has direct holdings.

Attachment 2 displays the unauthorized (i.e. scrutinized) list of Iran companies sent to the SBI's equity and bond investment managers. The managers are explicitly instructed to refrain from purchasing securities of companies on this list.

Attachment 3 displays the current list of Iran companies requiring divestment. The law calls for divestment of securities of companies which do not publicly announce substantial action specific to Iran within 90 days of the SBI correspondence. For the 2020 calendar year, there were no shares liquidated and no companies in the divestment process.

Enclosures

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11A.244 INVESTMENT IN IRAN.

Subdivision 1. **Definitions.** (a) For the purposes of this section, the following terms have the meanings given them in this subdivision.

(b) "Active business operations" means all business operations that are not inactive business operations.

(c) "Company" means any sole proprietorship, organization, association, corporation, partnership, joint venture, limited partnership, limited liability partnership, limited liability company, or other entity or business association, including all wholly owned subsidiaries, majority-owned subsidiaries, parent companies, or affiliates of such entities or business associations, that exists for profit-making purposes.

(d) "Direct holdings" means all publicly traded debt and equity securities of a company that are held directly by the State Board of Investment or held in an account or fund in which the State Board of Investment owns all shares or interests.

(e) "Government of Iran" means the government of the Islamic Republic of Iran or its instrumentalities or political subdivisions and companies owned or controlled by the Islamic Republic of Iran.

(f) "Inactive business operations" means the continued holding or renewal of rights to property previously operated for the purpose of generating revenues but not presently deployed for such a purpose.

(g) "Indirect holdings" means all investments held in an account or fund, including a mutual fund, a real estate fund, a private equity fund, or a commingled fund, managed by one or more persons who are not employed by the State Board of Investment, in which the public funds own shares or interests together with other investors who are not subject to this section.

(h) "Scrutinized company" means any company engaging in scrutinized business operations.

(i) "Scrutinized business operations" means any and all active business operations that are subject or liable to sanctions under Public Law 104-172, as amended, the Iran Sanctions Act of 1996, and that involve the maintenance of a company's existing assets or investments in Iran, or the deployment of new investments to Iran that meet or exceed the \$20,000,000 threshold referred to in Public Law 104-172, as amended, the Iran Sanctions Act of 1996. "Scrutinized business operations" does not include the retail sale of gasoline and related products.

(j) "Substantial action specific to Iran" means adopting, publicizing, and implementing a formal plan to cease scrutinized business operations within one year and to refrain from any such new business operations.

Subd. 2. **Identification of scrutinized companies.** (a) Within 90 days following August 1, 2009, the State Board of Investment shall make its best efforts to identify all scrutinized companies in which it has direct holdings. These efforts shall include, as appropriate:

(1) reviewing and relying, as appropriate, on publicly available information regarding companies with business operations in Iran, including information provided by nonprofit organizations, research firms, international organizations, and government entities;

(2) contacting asset managers contracting with the State Board of Investment who invest in companies with business operations in Iran; and

(3) contacting other institutional investors that have divested from or engaged with companies with business operations in Iran.

(b) At the first meeting of the State Board of Investment after it has completed the requirements of paragraph (a), the State Board of Investment shall assemble a list of scrutinized companies in which it has direct holdings.

(c) The State Board of Investment shall update the scrutinized companies list each quarter based on continuing information, including but not limited to information from sources identified in paragraph (a).

Subd. 3. **Engagement of scrutinized companies.** The State Board of Investment shall use the following procedures with respect to companies on the scrutinized companies list:

(1) for each company newly identified in subdivision 2 with scrutinized business operations, the State Board of Investment shall, within 90 days following its assembly of the scrutinized companies list, send a written notice informing the company of its scrutinized company status and that it may become subject to divestment by the State Board of Investment. The notice shall offer the company the opportunity to clarify its scrutinized business operations and shall encourage the company to cease, within 90 days of the date of the notice, its scrutinized business operations, or to convert them to inactive business operations in order to avoid divestment by the State Board of Investment; and

(2) if, within 90 days following the State Board of Investment's first engagement with a company under clause (1), that company publicly announces its commitment to substantial action specific to Iran, that company shall be removed from the scrutinized companies list and the provisions of this section shall cease to apply to it unless it resumes active business operations in Iran.

Subd. 4. **Divestment.** (a) If, after 90 days following the State Board of Investment's first engagement with a company under subdivision 3, clause (1), the company continues to have scrutinized business operations, and only while the company continues to have scrutinized business operations, the State Board of Investment shall sell, redeem, divest, or withdraw all publicly traded securities of the company, according to the following schedule:

(1) at least 50 percent of the holdings in the company shall be removed from the State Board of Investment's assets under management by nine months after the company's initial appearance on the scrutinized companies list; and

(2) 100 percent of the holdings in the company shall be removed from the State Board of Investment's assets under management within 15 months after the company's initial appearance on the scrutinized companies list.

(b) If a company that ceased scrutinized business operations following engagement under subdivision 3, clause (1), resumes such operations, paragraph (a) immediately applies to the company and the State Board of Investment shall send a written notice to the company. The company shall also be immediately reintroduced onto the scrutinized companies list.

Subd. 5. **Prohibition on new acquisitions.** The State Board of Investment may not acquire securities of companies on the scrutinized companies list that have scrutinized business operations, except as provided in this section.

Subd. 6. **Relation to federal action.** If the federal government excludes a company from its present or any future federal sanctions relating to Iran, that company is exempt from the divestment requirements and the investment prohibitions in this section.

Subd. 7. **Exemptions.** Subdivisions 4 and 5 do not apply to any of the following:

(1) investments in a company that is primarily engaged in supplying goods or services intended to relieve human suffering in Iran;

(2) investments in a company that is primarily engaged in promoting health, education, or journalistic, religious, or welfare activities in Iran; and

(3) investments in a United States company that is authorized by the federal government to have active business operations in Iran.

Subd. 8. Excluded securities. Subdivisions 4 and 5 do not apply to indirect holdings in actively managed investment funds. The State Board of Investment shall submit letters to the managers of investment funds containing companies with scrutinized active business operations requesting the managers to consider removing such companies from the fund or to create a similar actively managed fund with indirect holdings that do not include the companies. If a manager creates a similar fund, the State Board of Investment shall promptly replace all applicable investments with investments in the similar fund consistent with prudent investing standards. For the purposes of this section, "private equity" funds shall be deemed to be actively managed investment funds.

Subd. 9. Reporting. By January 15 of each calendar year, the State Board of Investment shall submit a report to the chairs and ranking minority members of the legislative committees and divisions with jurisdiction over the State Board of Investment. The report must include:

(1) a copy of the most recent list of scrutinized companies;

(2) a summary of correspondence with companies engaged by the State Board of Investment under subdivision 3;

(3) a list of all investments sold, redeemed, divested, or withdrawn in compliance with subdivision 4;

(4) a list of all prohibited investments under subdivision 5; and

(5) a description of any progress made under subdivision 8.

Subd. 10. Expiration. This section ceases to be operative if either of the following apply:

(1) Iran is removed from the United States Department of State's list of countries that have been determined to repeatedly provide support for acts of international terrorism; or

(2) the president of the United States determines and certifies that state legislation similar to this section interferes with the conduct of United States foreign policy.

Subd. 11. Other legal obligations. The State Board of Investment is exempt from any statutory or common law obligations that conflict with actions taken in compliance with this section, including all good faith determinations regarding companies as required by this section, including any obligations regarding the choice of asset managers, investment funds, or investments for the State Board of Investment's securities portfolios.

Subd. 12. Severability. The provisions of this section are severable. If any provision of this section or its application is held invalid, that invalidity does not affect other provisions or applications that can be given effect without the invalid provision or application.

History: 2009 c 90 s 1

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ATTACHMENT 1

**Minnesota State Board of Investment
Summary of Correspondence with Iran Scrutinized Companies
2020 Calendar Year Quarterly Activity**

Scrutinized Company Name	Country (Company Location)	Quarter	Date of Letter Sent by the SBI	Response Received from Scrutinized Company
Gazprom OAO (parent company)	Russia	2Q 2020	6/17/2020	Yes, response letter received on 8/18/2020.
Moscow Integrated Power Company (subsidiary of Gazprom)	Russia	2Q 2020	6/17/2020	Yes, response letter received from parent company, Gazprom OAO, on 8/18/2020.

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ATTACHMENT 2

Minnesota State Board of Investment List of Unauthorized (Scrutinized) Iran Companies 4Q 2020

Company Name	Country
Addax Petroleum Corp.	Switzerland
Bharat Petroleum Corporation Limited	India
BPRL International Singapore Pte Ltd.	Singapore
Caspian Investments Resources Ltd.	Kazakhstan
Centerenergyholding JSC	Russia
Chennai Petroleum Corporation Limited	India
China Petroleum & Chemical Corporation	China
First International Oil Corp.	USA
Gaz Capital SA	Luxembourg
Gazprom Capital LLC	Russia
Gazprom Gazoraspredelenie Rostov-na-Donu OJSC	Russia
Gazprom Gazoraspredeleniye Nizhny Novgorod PAO	Russia
Gazprom International SA	Luxembourg
Gazprom Neft PJSC	Russia
Gazprom Neftekhim Salavat JSC	Russia
Gazprom PJSC	Russia
Gazpromneft Yaroslavl	Russia
Gazpromneft-Omsk Refinery JSC	Russia
Gazpromneft-Tyumen OAO	Russia
Gazstream SA	Luxembourg
Giprospetsgaz JSC	Russia
GPN Capital SA	Luxembourg
Gubre Fabrikalari TAS	Turkey
Hyundai Engineering & Construction Co., Ltd.	South Korea
Hyundai Mobis Co., Ltd.	South Korea
Hyundai Motor Co., Ltd.	South Korea
Indian Oil Corp. Ltd.	India
Kochi Refineries Ltd.	India
Lanka IOC Plc	Sri Lanka
Mezhregionteplosetenergoremont PJSC	Russia
Moscow Integrated Power Co.	Russia
Mosenergo OAO	Russia
Mosnefteprodukt JSC	Russia
NIS AD	Serbia
Nord Stream 2 AG	Switzerland
Norinco International Cooperation Ltd.	China
Oil & Natural Gas Corp. Ltd.	India
Pan-Ocean Energy Corp. Ltd.	Jersey

**Minnesota State Board of Investment
List of Unauthorized (Scrutinized) Iran Companies
4Q 2020**

Company Name	Country
Penzagazifikatsiya OAO	Russia
Second Generating Co. Wholesale Power Market PJSC	Russia
Sibir Energy Ltd.	United Kingdom
SINOPEC Beijing Yanhua Petrochemical Co. Ltd.	China
Sinopec Capital (2013) Ltd.	Virgin Isl (UK)
Sinopec Capital Ltd.	Hong Kong
SINOPEC Engineering (Group) Co., Ltd.	China
Sinopec Kantons Holdings Limited	Bermuda
Sinopec Shanghai Petrochemical Co. Ltd.	China
Sinopec Yangzi Petrochemical Co., Ltd.	China
Sinopec Zhenhai Refining & Chemical Co. Ltd.	China
Territorial Generating Co. No 1 PJSC	Russia
Tomskneft JSC	Russia
Toyo Engineering Corp.	Japan
Volgogazoapparat OAO	Russia
Wholesale Generation Co.-2	Russia

ATTACHMENT 3

**Minnesota State Board of Investment
List of Iran Companies Divested
Calendar Year 2020**

Company Name	Country
None	-

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