



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

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Compliance with Divestment Acts

The State of Michigan Investment Board and Michigan Bureau of Investments serve as investment fiduciaries of the State of Michigan Retirement System, which is comprised of the following retirement funds: 1) Michigan State Police Retirement System, (2) Michigan Judges Retirement System; (3) State Employees' Retirement System; and (4) Michigan Public School Employees' Retirement System; (collectively the "State of Michigan Retirement System" or "SMRS"). The Bureau of Investments manages the assets of various trusts, agencies, and/or accounts (the "Trusts and Agencies") where the State Treasurer is delegated investment responsibilities pursuant to State statute. The assets of SMRS and the Trusts and Agencies are invested with the aim of achieving maximum returns for beneficiaries. The Bureau of Investments fulfills this endeavor, investing in accordance with principles and guidelines embodied in state statutes and acting solely in the interest of the participants and beneficiaries. Investments are managed both internally and externally. Any investments made outside the boundaries of these laws are unauthorized.

Michigan law prohibits the investment of public monies in companies doing business in countries designated as a state sponsor of terror by the United States Secretary of State. Currently, the following countries are designated state sponsors of terror: Iran, Cuba, North Korea and Syria. The divestment requirements are applicable to SMRS and the Trusts and Agencies. These requirements are contained in the Divestment From Terror Act ("Divestment Act"), MCL 129.291 *et seq*, and in the Public Employee Retirement System Investment Act ("Investment Act"), MCL § 38.1133c and MCL § 38.1133d (together with the Divestment Act, the "Acts").

Additionally, the following are also subject to the divestment requirements: (1) the Board of Trustees of a community college subject to the Community College Act of 1966; MCL § 389.142(4); (2) the Board of Directors of the Michigan Education Trust; MCL§ 390.1429(5); and (3) the Board of the Michigan Strategic Fund under the Michigan Strategic Fund Act, MCL § 125.2007a.

Pursuant to the Acts, the Bureau of Investments quarterly reviews its internal and external holdings in all companies to ensure no public monies are invested in companies engaged in active business operations in state sponsors of terror. The Bureau of Investments accomplishes this task by contracting with a third-party vendor that screens companies using criteria contained in the Acts. Companies that fall within the statutory factors are designated as scrutinized for having either active or inactive business operations in the state sponsor of terror. The Acts permit investments in companies with inactive business operations so long as the company's actions remain inactive, which means the company holds property in the country but is not using the

property to generate income. Investments in companies with active business operations are prohibited.

The Bureau of Investments engages companies that have active or inactive business operations in those countries. Engagement with companies that have inactive business operations occurs semiannually.

Engagement with companies with active business operations occurs each quarter following creation of the scrutinized companies list. The company has 90 days after receiving the first engagement letter to cease business operations, develop a substantial plan of action to cease business operations, or convert its active business operations to inactive. Failure to do so will result in divestment. The Acts provide a divestment schedule requiring that the Bureau of Investments divest at least 50 percent within nine months following the company's most recent appearance on the scrutinized company list and 100 percent within 15 months following the company's most recent appearance on the list.

In addition to the engagement and divestment mandates, the Acts also impose reporting requirements. In compliance with the provisions of the Acts, the Bureau of Investments must compile and file an annual report to the Legislature summarizing divestment activities (a copy of this report is sent to the United States presidential special envoy to Sudan) and periodically update the Bureau of Investment's web site showing the following: all investments sold, redeemed, divested, or withdrawn in compliance with the Acts; all prohibited investments made under the Acts; and progress made with respect to new private market funds. Investment Personnel meet the private market requirement by inquiring about a fund's planned activities in companies with active business operations in state sponsors of terror when conducting due diligence. The Bureau of Investments monitors its private market investment personnel to ensure that these questions are asked and answered before new private investments are pursued. In compliance with the Acts, investments in funds with planned activities involving companies with active business operations in state sponsors or terror will be discouraged.