

Protecting Florida's Investments Act (PFIA)

Quarterly Report

September 19, 2007

State Board of Administration of Florida



INVESTING FOR FLORIDA'S FUTURE

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Introduction

On June 8, 2007, the Protecting Florida’s Investments Act (“PFIA”) was signed into law. The PFIA requires the State Board of Administration (“SBA”), acting on behalf of the Florida Retirement System Trust Fund (the “FRSTF”), to assemble and publish a list of “Scrutinized Companies” that have prohibited business operations in Sudan and Iran. Once placed on the list of Scrutinized Companies, the SBA and its investment managers will be prohibited from acquiring those companies’ securities and may be required to divest those securities if the companies do not cease the prohibited activities or take certain compensating actions. The implementation of the PFIA by the SBA will not affect any FRSTF investments in U.S. companies. The PFIA will solely affect foreign companies with certain business operations in Sudan and Iran involving the petroleum or energy sector, oil or mineral extraction, power production or military support activities. This first quarterly report for 2007 is being submitted pursuant to Section 215.473 (4), Florida Statutes.

Primary Requirements of the PFIA

The PFIA creates new reporting, engagement and investment requirements for the SBA, including:

1. Quarterly reporting to the Board of Trustees, beginning no later than October 2007, of every equity security in which the SBA has invested for the quarter, along with its industry category. Such report will be posted on the SBA website beforehand.
2. Quarterly presentation to the Trustees of a “Scrutinized Companies” list for both Sudan and Iran for their approval. Such lists are to be available on the SBA’s website, along with information on the FRSTF direct and indirect holdings of Scrutinized Companies. The initial presentation must be by September 19, 2007
3. Written notice to external investment managers of all PFIA requirements. Letters will also request that the managers of actively managed commingled vehicles (i.e., those with FRSTF and other clients’ assets) consider removing Scrutinized Companies from the product or create a similar actively managed product that excludes such companies. Similar written requests must be provided to relevant investment managers within the defined contribution plan.
4. Written notice to any company with inactive business operations in Sudan or Iran, informing the company of the PFIA and encouraging it to continue to refrain from reinitiating active business operations. Such correspondence must continue semiannually.
5. Written notice to any Scrutinized Company with active business operations, informing the company of its Scrutinized Company status and that it may become subject to divestment. The written notice must inform the company of the opportunity to clarify its Sudan-related or Iran-related activities and encourage the company, within 90 days, to cease its scrutinized business operations or convert such operations to inactive status.
6. A prohibition on further investment on behalf of the FRSTF in any Scrutinized Company once the Sudan and Iran scrutinized lists are approved by the Trustees. All publicly traded securities of Scrutinized Companies must be divested within 12 months after the company’s most recent appearance on the Scrutinized Companies list. Divestment does not apply to indirect holdings in actively managed commingled investment funds—i.e., where the SBA is not the sole investor in the fund. Private equity funds are considered to be actively managed.
7. Reporting to each member of the Board of Trustees, President of the Senate, and the Speaker of the House of Representatives of Scrutinized Company lists within 30 days of creation, and public disclosure of each list.
8. Quarterly reporting of the following to each member of the Board of Trustees, the President of the Senate, the Speaker of the House of Representatives, the United States Presidential Special

Envoy to Sudan and the United States Presidential Special Envoy to Iran. The report must also be publicly available.

- a. A summary of correspondence with engaged companies;
 - b. A listing of all investments sold, redeemed, divested, or withdrawn;
 - c. A listing of all prohibited investments;
 - d. A description of any progress related to external managers offering PFIA compliant funds; and
 - e. A list of all publicly traded securities held directly by the state.
9. Adoption and incorporation into the Investment Policy Statement (IPS) of SBA actions taken in accordance with the PFIA. Changes to the IPS are reviewed by the Investment Advisory Council and approved by the Trustees.
10. Relevant Sudan or Iran portions of the PFIA are discontinued if the Congress or President of the United States passes legislation, executive order, or other written certification that:
- a. Darfur genocide has been halted for at least 12 months;
 - b. Sanctions imposed against the Government of Sudan are revoked;
 - c. Government of Sudan honors its commitments to cease attacks on civilians, demobilize and demilitarize the Janjaweed and associated militias, grant free and unfettered access for deliveries of humanitarian assistance, and allow for the safe and voluntary return of refugees and internally displaced persons;
 - d. Government of Iran has ceased to acquire weapons of mass destruction and support international terrorism;
 - e. Sanctions imposed against the government of Iran are revoked; or
 - f. Mandatory divestment of the type provided for by the PFIA interferes with the conduct of U.S. foreign policy.
11. Cessation of divestment and/or reinvestment into previously divested companies may occur if the value of all FRSTF assets under management decrease by 50 basis points or more as a result of divestment; i.e., a reduction in value of assets of about \$680 million at the current value of the FRSTF. If cessation of reinvestment is triggered, the SBA is required to provide a written report to each member of the Board of Trustees, the President of the Senate, and the Speaker of the House of Representatives prior to initial reinvestment. Such condition is required to be updated semiannually.

Definition of Scrutinized Company

The following is a brief review of the criteria on which the active business operations of companies must be judged, in accordance with subsection (1)(t) of the Section 215.473, F.S.

Sudan:

1. Have a material business relationship with the government of Sudan or a government-created project involving oil related, mineral extraction, or power generation activities, or
2. Have a material business relationship involving the supply of military equipment, or
3. Impart minimal benefit to disadvantaged citizens that are typically located in the geographic periphery of Sudan, or
4. Have been complicit in the genocidal campaign in Darfur.

Iran:

1. Have a material business relationship with the government of Iran or a government-created project involving oil related or mineral extraction activities, or
2. Have made material investments in and significantly enhancing Iran's petroleum sector.

Affiliates of companies with scrutinized business operations are also subject to the requirements of the PFIA. An affiliated company is generally defined as any other company that either directly or indirectly controls, is controlled by or is under common control with the company conducting scrutinized active business operations. Control generally means the power to exercise a controlling influence over the management or policies of a company. As well, many companies have parent—subsidiary relationships whereby a parent company may own several other companies. In such cases, SBA has included any known parent and/or subsidiaries which can be clearly linked to a company with scrutinized active business operations.

The SBA views companies which have explicit plans and activities related to discontinuation of active business operations as meeting the PFIA definition of substantial action. For all identified companies, the SBA will request information detailing what a company has actually done, if anything, to discontinue its active business operations or if it has pursued humanitarian efforts (applicable to Sudan only).

SBA Scrutinized Companies Identification Methodology

The SBA has developed two lists of Scrutinized Companies with active business operations by principally relying on the research and findings of four “External Research Providers”:

1. Sudan Divestment Task Force (SDTF). SDTF is a project of the Genocide Intervention Network, a non-profit organization focused on fundraising for the UN-supported African Union Mission in Darfur and political activism to pressure governments and the UN to pursue a comprehensive strategy to end the genocide in Darfur.
2. Institutional Shareholder Services (ISS). Since 1985 ISS has delivered expert proxy voting and corporate governance solutions to institutional clients. ISS offers screening services to help pension funds and their investment managers comply with the specific and unique components of state law pertaining to investments in sanctioned countries, including Sudan and Iran.
3. KLD Research & Analytics (KLD). KLD is an independent investment research firm producing a Sudan Targeted Divestment Compliance product, which meets the requirements of the Sudan Divestment Task Force. While KLD consults with the SDTF on legislative criteria and certain companies, KLD independently performs all of the research involved in creating the product.
4. American Israel Public Affairs Committee (AIPAC). AIPAC works on public policy issues with an intent to strengthen the U.S.-Israel relationship. AIPAC produces a list of foreign companies at risk of being sanctioned by the U.S. for investing in Iran’s oil and natural gas sector, in violation of the Iran Sanctions Act (ISA).

The SBA Office of Corporate Governance and Investment Communications (OCGIC) and senior investment professionals review the assessments of the External Research Providers and other publicly available information. To date, the SBA has evaluated over 150 individual companies with reported potential links to either Sudan or Iran via reference to some of the following sources:

Company disclosures:

- SEC filings (DEFN14A Proxy Statements, 10-K Annual Reports, etc.)
- Investor Relations/company website
- Industry publications and analyst research

Investment/Finance Organizations:

- Industry Analysts
- Index Providers (e.g., Russell)
- Other Institutional Investors/Private Investors

U.S Government Agencies:

- SEC Office of Global Security (EDGAR)

- U.S. Treasury, Office of Foreign Asset Control (OFAC)
- Dept. of Energy, Energy Information Administration (EIA)
- Congressional Research Service (CRS), Library of Congress

Non-Governmental Organizations (NGOs):

- American Enterprise Institute (AEI)
- Amnesty International
- Yale University (Allard K. Lowenstein International Human Rights Project)
- Human Rights Watch

Other Sources:

- SBA External Investment Managers
- U.S. Federal Sanctions Laws covering State Sponsors of Terror
- Any other publicly available information.

Using the previous information sources, the SBA has developed two separate categorizations of a company’s involvement in Sudan and/or Iran.

1. **“Scrutinized”** — All applicable External Research Provider indicates that a company meets the classification of a Scrutinized Company as defined by the PFIA as set forth in Section 215.473 (1)(t)1., 2., or 3. [Sudan] or Section 215.473 (4)(t)1. [Iran]. For Sudan, SDTF, ISS and KLD must unanimously agree on the company’s status under the PFIA. For Iran, AIPAC and ISS must unanimously agree on the company’s status under the PFIA. Upon SBA review, no other information sources clearly contradict the conclusions of the External Research Providers.
2. **“Continued Examination”** — At least one, but not all applicable External Research Providers indicates that a company meets the classification of a Scrutinized Company as defined by the PFIA as set forth in Section 215.473, (1)(t)1., 2., or 3. [Sudan] or Section 215.473, (4)(t)1. [Iran]. In other words, the External Research Providers do not agree on the status of a company and SBA is unable to definitively categorize the company’s activities as scrutinized without further research to resolve the differences. For companies classified as “Continued Examination” the SBA will begin an engagement process to clarify each firm’s current business relationships.

About the State Board of Administration

The statutory mission of the State Board of Administration (SBA) is to invest, manage and safeguard assets of the Florida Retirement System (FRS) Trust Fund and a variety of other funds for state and local governments. FRS Trustees are dedicated to ensuring that the SBA invests assets and discharges its duties in accordance with Florida law, guided by strict policies and a code of ethics to ensure integrity, prudent risk management and top-tier performance. The SBA is an investment fiduciary under law, and subject to the stringent fiduciary duties and standards of care defined by the Employee Retirement Income Security Act of 1974 (ERISA), as incorporated into Florida law. The SBA has three Trustees: the Governor, as Chairman, the Chief Financial Officer, as Treasurer, and the Attorney General, as Secretary.

As of June 30, 2007, the net asset value of total funds under SBA management equaled \$184.0 billion. The FRS Pension Plan, which provides defined pension benefits to 1.1 million members, was fully funded with a surplus. The strong long-term performance of the FRS Pension Plan, the fourth-largest public pension fund in the nation, reflects our commitment to responsible fiscal management. The SBA strives to meet the highest ethical, fiduciary and professional standards while performing its mission, with a continued emphasis on keeping operating and investment management costs as low as possible for the benefit of Florida taxpayers. We encourage you to review additional information about the SBA and FRS on our website at www.sbafla.com.

Table 1: List of Scrutinized Companies with Activities in Sudan

Company	Country of Incorporation
Alstom	France
Areva SA	France
AviChina Industry & Technology Company Limited	China
Bharat Heavy Electricals Limited	India
Bongaigaon Refinery & Petrochemical	India
Chennai Petroleum Corporation Limited	India
China Petroleum & Chemical Corp (Sinopec)	China
CNPC Hong Kong Limited	China
Dongan Motor	China
Dongfeng Automobile Company Limited	China
Electricity Generating PCL	Thailand
Hafei Aviation Industry Company	China
Harbin Power Equipment	China
Indian Oil Corporation Limited	India
Jiangxi Changhe Automobile	China
Jiangxi Hongdu Aviation	China
Kejuruteraan Samudra Timur Bhd	Malaysia
KMCOB Capital Bhd	Malaysia
La Mancha Resources	Canada
Lanka IOC	India
Lundin Petroleum AB	Sweden
Lundin International SA	France
Mangalore Refinery & Petrochemical	India
Midciti Resources Sdn Bhd	Malaysia
MISC Bhd (Malaysian Intl. Shipping Co.)	Malaysia
Muhibbah Engineering	Malaysia
Oil & Natural Gas Corporation (ONGC)	India
Optimal Olefins Sdn Bhd	Malaysia
PECD Bhd	Malaysia
PetroChina	China
PetroFac	United Kingdom
Petroliam Nasional (Petronas)	Malaysia
Petronas Gas Bhd	Malaysia
Petronas Dagangan	Malaysia
Petronas Fertilizer Sdn Bhd	Malaysia
Petronas Assets Sdn Bhd	Malaysia
Petronas Capital Limited	Malaysia

Table 1: List of Scrutinized Companies with Activities in Sudan Cont’d

Company	Country of Incorporation
Scomi Engineering	Malaysia
Scomi Group	Malaysia
Sinopec Kantons Holdings	China
Sinopec Shanghai Petrochemical Company	China
Weir Group PLC	United Kingdom
Wuhan Boiler Company	United Arab Emirates
# of Companies	43

Table 2: List of Companies Requiring [Continued Examination](#) with Activities in Sudan

Company	Country of Incorporation
AREF Investment Group	Kuwait
Bharat Electronics Limited	India
Bollore Group	France
Finmeccanica SpA	Italy
ICSA India Limited	India
Kencana Petroleum	Malaysia
Malaysian Mining Corporation Bhd	Malaysia
Mitsui Engineering & Shipbuilding	Japan
Nam Fatt	Malaysia
Schlumberger Limited NV	Netherlands Antilles
Sudan Telecommunications (Sudatel)	Sudan
Total	France
Wärtsilä Oyj	Finland
Weatherford International, Inc.	Bermuda
# of Companies	14

Table 3: List of Scrutinized Companies with Activities in the Iran Petroleum Energy Sector

Company	Country of Incorporation
Bow Valley	Canada
CNPC Hong Kong Ltd.	Hong Kong
ENI	Italy
Gazprom	Russia
GS Holdings	South Korea
Indian Oil Corp Ltd (IOCL)	India
Inpex	Japan
Lukoil OAO	Russia
Midciti Resources Sdn Bhd	Malaysia
MISC Bhd (Malaysian Intl. Shipping Co.)	Malaysia
Norsk Hydro	Norway
Oil & Natural Gas Corp (ONGC)	India
OMV AG	Austria
Optimal Olefins Sdn Bhd	Malaysia
PetroChina	China
Petroleo Brasileiro (Petrobras)	Brazil
Petroleum Nasional (Petronas)	Malaysia
Petronas Assets Sdn Bhd	Malaysia
Petronas Capital Limited	Malaysia
Petronas Dagangan Bhd	Malaysia
Petronas Fertilizer Sdn Bhd	Malaysia
Petronas Gas Berhad	Malaysia
Repsol YPF	Spain
Royal Dutch Shell PLC	United Kingdom
Snam Rete Gas	Italy
Statoil	Norway
Total	France
# of Companies	27

Table 4: List of Co.’s Requiring Continued Examination with Activities in the Iran Petroleum Energy Sector

Company	Country of Incorporation
Actividades de Construccion y Servicios S.A.(ACS)	Spain
Aggreko PLC	United Kingdom
Air Liquide	France
Aker Kvaerner ASA	Norway
BG Group	UK
China Petroleum & Chemical Corp (CPOC) Sinopec	China
CNOOC Ltd	China
Costain Group PLC	United Kingdom
Daelim Industrial Co.	South Korea
Essar Oil	India
GVA Consultants	Sweden
Itochu Corp	Japan
JGC Corp	Japan
Linde AG	Germany
Liquefied Natural Gas LNG	Australia
Mitsui & Co.	Japan
Mitsubishi Heavy Industries Ltd.	Japan
Mitsui Engineering & Shipbuilding Co.	Japan
Saipem	Italy
Samsung Engineering Co. Ltd.	Korea
Samsung Heavy Industries Co. Ltd.	Korea
Sasol Ltd.	South Africa
Schlumberger Ltd. N.V.	Netherlands Antilles
SNC - Lavalin Group Inc.	Canada
Technip (formerly Technip-Coflexip)	France
Weir Group Plc (The)	United Kingdom
# of Companies	26

Summary of Correspondence, SBA Company Engagement Efforts

Because the SBA has not assembled any Scrutinized Company lists prior to this quarterly report, there have been no company engagement activities to date. The second PFIA quarterly report scheduled for December 2007 will contain updated information on the SBA's company engagement efforts.

Key Dates for PFIA Activities:

June 8, 2007 — Legislation's effective date, upon becoming a law.

August 6, 2007 — SBA letter to state agencies requesting data on all publicly traded securities held directly by the State.

August 20, 2007 — First of two letters to investment managers providing written notice of PFIA enactment and amendment to Schedule B of investment management contracts.

September 19, 2007 — By the first meeting of the Trustees after 90 days of the effective date of the law, the SBA shall assemble Scrutinized Companies lists for Sudan and Iran. Upon Trustee approval at the September 19, 2007 meeting the following shall occur:

SBA engages Scrutinized Companies and through written letter and meetings requests them to end active business operations within 90 days.

SBA sends the second of two letters to investment managers providing Scrutinized Companies lists.

October 19, 2007 — SBA provides the Scrutinized Companies lists to the Legislature and makes them available to the public within 30 days of creation.

October 31, 2007 — SBA reports all equities held to the Trustees and public.

December 31, 2007 — SBA reports on scrutinized lists and engagement activities.

September 18, 2008 — The SBA must complete divestment of initial Scrutinized Companies (i.e., within 12 months of their appearance on the list), if they do not stop scrutinized active business operations after receiving the September 2007 engagement letter.

List of Investments Sold, Redeemed, Divested or Withdrawn

Because the SBA has not assembled any Scrutinized Company lists prior to this quarterly report, there have been no sales, redemptions, divestments or withdrawals specifically related to the PFIA. The second PFIA quarterly report scheduled for December 2007 will contain updated information on the SBA's investment transactions.

Table 5: List of Prohibited Investments (Companies)

Company	Scrutinized Country	Country of Incorporation
Alstom	Sudan	France
Areva SA	Sudan	France
AviChina Industry & Technology Company Limited	Sudan	China
Bharat Heavy Electricals Limited	Sudan	India
Bongaigaon Refinery & Petrochemical	Sudan	India
Bow Valley	Iran	Canada
Chennai Petroleum Corporation Limited	Sudan	India
China Petroleum & Chemical Corp (Sinopec)	Sudan	China
CNPC Hong Kong Limited	Iran & Sudan	China
Dongan Motor	Sudan	China
Dongfeng Automobile Company Limited	Sudan	China
Electricity Generating PCL	Sudan	Thailand
ENI	Iran	Italy
Gazprom	Iran	Russia
GS Holdings	Iran	South Korea
Hafei Aviation Industry Company	Sudan	China
Harbin Power Equipment	Sudan	China
Indian Oil Corporation Limited	Iran & Sudan	India
Inpex	Iran	Japan
Jiangxi Changhe Automobile	Sudan	China
Jiangxi Hongdu Aviation	Sudan	China
Kejuruteraan Samudra Timur Bhd	Sudan	Malaysia
KMCOB Capital Bhd	Sudan	Malaysia
La Mancha Resources	Sudan	Canada
Lanka IOC	Sudan	India
Lukoil OAO	Iran	Russia
Lundin Petroleum AB	Sudan	Sweden
Lundin International SA	Sudan	France
Mangalore Refinery & Petrochemical	Sudan	India
Midciti Resources Sdn Bhd	Iran & Sudan	Malaysia
MISC Bhd (Malaysian Intl. Shipping Co.)	Iran & Sudan	Malaysia
Muhibbah Engineering	Sudan	Malaysia
Norsk Hydro	Iran	Norway
Oil & Natural Gas Corporation (ONGC)	Iran & Sudan	India
OMV AG	Iran	Austria
Optimal Olefins Sdn Bhd	Iran & Sudan	Malaysia
PECD Bhd	Sudan	Malaysia
PetroChina	Iran & Sudan	China

Table 5: List of Prohibited Investments (Companies) Cont’d

Company	Scrutinized Country	Country of Incorporation
PetroFac	Sudan	United Kingdom
Petroleo Brasileiro (Petrobras)	Iran	Brazil
Petroliam Nasional (Petronas)	Iran & Sudan	Malaysia
Petronas Gas Bhd	Iran & Sudan	Malaysia
Petronas Dagangan	Iran & Sudan	Malaysia
Petronas Fertilizer Sdn Bhd	Iran & Sudan	Malaysia
Petronas Assets Sdn Bhd	Iran & Sudan	Malaysia
Petronas Capital Limited	Iran & Sudan	Malaysia
Repsol YPF	Iran	Spain
Royal Dutch Shell PLC	Iran	United Kingdom
Scomi Engineering	Sudan	Malaysia
Scomi Group	Sudan	Malaysia
Sinopec Kantons Holdings	Sudan	China
Sinopec Shanghai Petrochemical Company	Sudan	China
Snam Rete Gas	Iran	Italy
Statoil	Iran	Norway
Weir Group PLC	Sudan	United Kingdom
Wuhan Boiler Company	Sudan	United Arab Emirates
Total	Iran	France
# of Companies	-	57

Summary of Progress, SBA Investment Manager Engagement Efforts

Because the SBA has not assembled any Scrutinized Company lists prior to this quarterly report, there have been no investment manager engagement activities to date. The second PFIA quarterly report scheduled for December 2007 will contain updated information on the SBA's investment manager engagement efforts.

Listing of All Publicly Traded Securities

Due to the large number of individual securities (over 20,000) and the volume of information, this list has been electronically posted to the SBA's website. A list of all publicly traded securities owned by the State of Florida can be found at: www.sbafla.com

Listing of All Publicly Traded Equity Securities

Pursuant to Section 215.442, F.S., the SBA is required to publicly disclose a list of all publicly traded equity securities and industry classification no later than October 2007. The SBA has incorporated such disclosure in this PFIA quarterly report for ease of reference.

Due to the large number of individual securities (over 5,000) and the volume of information, this list has been electronically posted to the SBA's website. A list of all publicly traded equity securities owned by the State of Florida can be found at: www.sbafla.com

For more information, please contact:

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