

The most recent check of scrutinized companies in the Iran petroleum energy sector found four companies in the Fixed Income portfolio. We sent letters to those companies in January 2012 urging them to curtail their operations in Iran. We have received a response from CNOOC Limited stating that neither it nor any of its subsidiaries has any business operations in Iran.

This resolution is scheduled to sunset January 1, 2014.

WSIB Resolution on Iran Investment

WHEREAS, the Washington State Investment Board (WSIB) is concerned about the potential risk to its investments in foreign companies doing business in the Islamic Republic of Iran (Iran);

WHEREAS, the U.S. Department of State has designated Iran as a State Sponsor of Terrorism, funding such groups as Hamas, Hizballah, and Islamic Jihad, as well as providing support for Iraqi insurgents;

WHEREAS, the United Nations Security Council has imposed sanctions on Iran for its failure to suspend its uranium enrichment activities that could lead to a nuclear weapons capability;

WHEREAS, the United States federal government has imposed a variety of economic sanctions on foreign companies that make an investment of more than \$20 million a year in Iran's energy sector;

WHEREAS, The WSIB recognizes the federal government has sole responsibility for the conduct of United States foreign policy;

WHEREAS, the WSIB is entrusted with managing investments for public pension and other trust funds and is committed to doing so with the utmost integrity, prudence and skill; and

WHEREAS, the WSIB's fiduciary responsibilities include watching for potential impacts on the valuations of its investments that may result from reputational, economic, and other risks to the companies in which the WSIB invests that may flow from companies doing business in Iran;

BE IT RESOLVED that the WSIB supports immediate and meaningful action to deal in a fiduciarily responsible manner with investments in companies doing business in Iran and adopts the following Resolution, principles, and protocols as to how it will address investments in international or non-U.S. companies which are doing direct business in Iran:

Principles:

1. The WSIB will make no direct investments in Iran government bonds, notes, or similar bills of the nation of Iran.
2. The WSIB will make no investment in companies conducting business activities in Iran that are directly related to terrorism, as expressly identified by the U.S. State Department, Treasury Department, or any other authorized agency of the U.S. Federal Government, such as, any company identified as subject to United States sanction by the Office of Foreign Assets Control or by the Department of State.
3. The WSIB will seek to avoid investments in international or non-U.S. companies which provide military equipment, arms, or military supplies to the government of Iran or to an Iran government-associated group or entity in Iran identified by the U.S. State Department or other authorized agency of the U.S. Federal Government as engaged in terrorist activities.
4. The WSIB will seek to avoid investments in companies directly operating in Iran and involved in activities supporting terrorism, as identified by organizations serving public institutional investors, and companies that consistently refuse engagement with investors and humanitarian organizations about

steps the company could take to terminate involvement in activities supporting terrorism and efforts that could be taken by the company to discourage a role by Iran in terrorist activities.

Active Engagement Protocols:

1. The WSIB staff will continue to research publicly available information provided by government entities, research firms, international organizations, and nonprofit organizations to identify companies doing business in Iran meeting the following criteria :
 - a) That have made an investment on or after August 5, 1996, in any given year of \$20 million or more, in Iran's energy sector, as identified by the U.S. government; or
 - b) Are engaged in business with any Iranian organization labeled by the U.S. government as a terrorist organization; or
 - c) Are identified by the U.S. government as engaged in business providing Iranian acquisition of nuclear, chemical or biological weapons technology.
2. Any company being identified as meeting the criteria set forth above in which the WSIB holds a direct investment, WSIB staff shall engage such company, urging it to suspend or curtail such operations. WSIB staff may, where appropriate, confer with other pension systems regarding information stemming from their engagement with such companies and consider potential cooperation in jointly engaging such companies.
3. WSIB staff shall evaluate company responses in relation to the following factors:
 - a) Potential investment risk presented and strategies for addressing such risk;
 - b) The viability of working with other interested parties and investors to address identified investment risk; and
 - c) The appropriateness of divestment and/or the availability of alternative direct investments providing similar diversity and return expectations consistent with the WSIB's fiduciary responsibilities.
4. The 15 members of the Washington State Investment Board include: three Ex-officio members (the state Treasurer, director of the state Department of Retirement Systems, and director of the state Department of Labor and Industries; a member of the Washington state Senate, a member of the Washington state House of Representatives and three public employee pension representatives appointed by the Governor, two teacher and school employee pension representatives appointed by the state Superintendent of Public Instruction; and, five non-voting members appointed by the Board. WSIB staff will present an annual report to the WSIB Board at a public meeting regarding its identification, engagement, evaluation, and actions concerning companies pursuant to these protocols. The report will also be posted on the WSIB's Web site.
5. This Resolution does not require exit or divestment from any index or commingled public equity investment vehicle. The WSIB will, however, discuss with the managers of such funds the availability of alternative investment vehicles of equivalent value, diversity, and return expectations that do not contain non-complying companies.
6. The principles and protocols set forth in this Resolution are subject to the WSIB's fiduciary standards in state law, including the duty to "establish investment policies and procedures designed exclusively to maximize return at a prudent level of risk," RCW 43.33A.110, and the duty to act as a prudent investor found in RCW 43.33A.140. To avoid any doubt, "direct investment" under this Resolution refers only to the WSIB's fixed income portfolio. This Resolution does not apply to real estate, tangible assets, private equity investments or public equity commingled trust funds and separate accounts..

Term of Resolution:

It is the judgment of the WSIB that this Resolution should remain in effect only insofar as it continues to be consistent with, and does not unduly interfere with, the foreign policy of the United States as determined by the federal government. Otherwise, this Resolution will sunset January 1, 2014, unless affirmatively readopted by the WSIB.