Joseph A. Fox
Executive Director

J. Kevin Stitt
Governor

Energy Discrimination Elimination Act of 2022

The State Treasurer shall prepare and maintain and provide to each state governmental entity (state retirement systems) a list of financial companies that boycott energy companies. (Restricted Financial Company List, Appendix A)

- "Boycott energy company" means, without an ordinary business purpose, refusing to deal with, terminating business activities with, or otherwise taking any action that is intended to penalize, inflict economic harm on, or limit commercial relations with a company because the company:
  - (a) engages in the exploration, production, utilization, transportation, sale, or manufacturing of fossil-fuel-based energy and does not commit or pledge to meet environmental standards beyond applicable federal and state law, or
  - (b) does business with a company described by subparagraph a.
- OPERS sent the notice required under the Act to the Treasurer on May 25, 2023 (Appendix B)
- OPERS sent written notice to Blackrock and State Street Corp per the Act on May 25, 2023. OPERS has requested contact information for the other companies covered under the Act. (Appendix C)

Timeline for Divestment:

- Not later than the ninetieth day after the date the financial company receives notice, the financial company shall cease boycotting energy companies to avoid qualifying for divestment.
- If, after the ninetieth day, the financial company continues to boycott energy companies, the state governmental entity shall sell, redeem, divest, or withdraw all publicly traded securities of the financial company according to the following schedule:
  - at least fifty percent (50%) of those assets shall be removed from the state governmental entity's assets under management not later than the one-hundred-eightieth day after the date the financial company receives notice from OPERS unless the state governmental entity determines, based on a good-faith exercise of its fiduciary discretion (subject to the timeline below), that a later date is more prudent, and
  - one hundred percent (100%) of those assets shall be removed from the state governmental entity's assets under management not later than the three-hundred-sixtieth day.

Section 5 (Contracting Prohibition):

A governmental entity shall not contract with a company for goods or services:

- unless the contract contains a written verification from the company that it does not boycott energy companies and will not boycott energy companies during the term of the contract.
- OR with a listed financial company under Section 3 (Treasurer's Restricted Financial Company list)

The divesture and contracting prohibition provisions of the Act effectively prohibit OPERS from investing in any of the names on the Restricted Financial Company List as well as eliminating those companies from acting as an investment advisor to the Fund.

Exemptions/exceptions in the bill:

- **Fiduciary Exemption:** 74 O.S. §12002(D)(3) - A state governmental entity shall not be subject to any requirement of this act if the state governmental entity determines that such requirement would be inconsistent with its fiduciary responsibility with respect to the investment of entity assets or other duties imposed by law relating to the investment of entity assets.
- **Divestment Delay:** 74 O.S. §12003(D)(4) - Except as provided by paragraph 1 of subsection D of this section, a state governmental entity may delay the schedule for divestment only to the extent that the state governmental entity determines, in the state governmental entity's good-faith judgment, and consistent with the entity's fiduciary duty, that divestment from listed financial companies will likely result in a loss in value or a benchmark deviation described by paragraph 1 of subsection F of this section.
    - F. 1. A state governmental entity may cease divesting from one or more listed financial companies only if clear and convincing evidence shows that:

        a. the state governmental entity has suffered or will suffer a loss in the value of assets under management by the state governmental entity as a result of having to divest from listed financial companies under this subsection, or

        b. an individual portfolio that uses a benchmark-aware strategy would be subject to an aggregate expected deviation from its benchmark as a result of having to divest from listed financial companies under this subsection.
- **Indirect Holdings:** 74 O.S. §12003(E). A state governmental entity is not required to divest from any indirect holdings (401(k) and 457(b) are exempt from the definition of indirect holdings) in actively or passively managed investment funds or private equity funds. The entity shall submit letters to the managers of each investment fund containing listed financial companies requesting that they remove those financial companies from the fund or create a similar actively or passively managed fund with indirect holdings devoid of listed financial companies. If a manager creates a similar fund with substantially the same management fees and same level of investment risk and anticipated return, the state governmental entity may replace all applicable investments with investments in the similar fund in a time frame consistent with prudent fiduciary standards but not later than the four-hundred-fiftieth day after the date the fund is created.
- **Contracting limits exemption** (74 O.S. §12005)**:**
    - a governmental entity that determines the contracting limits are inconsistent with the governmental entity's constitutional or statutory duties related to the issuance, incurrence, or management of debt obligations or the deposit, custody, management, borrowing, or investment of funds, and
    - a contract for which a governmental body determines the supplies or services to be provided are not otherwise reasonably available from a company that is not a listed financial company.

General Comments Regarding ESG Considerations

It is important to note that Environmental, Social, and Governance (ESG) considerations are not integrated into the OPERS and URSJJ investment philosophy. As such, ESG-related criteria are not used in the selection of managers, mandates, or required for the selection of individual securities in the OPERS or URSJJ investment portfolios. The Investment Policy Statement addresses ESG considerations as follows:

> "The Board acknowledges that while other institutions may make investment decisions to pursue various worthy causes that may be admirable in their own right, the Board's investment decisions are made to achieve the primary goal of providing benefits to participants and their beneficiaries and defraying reasonable expenses."

OPERS and URSJJ Exposure to Restricted Financial Companies

The exposures in the OPERS and URSJJ portfolios as defined in the Act included Direct holdings, Indirect holdings, and exposure to Restricted Financial Companies acting as advisors to the Funds (prohibition of contracting with Restricted Financial Companies). The following table details the exposures as of March 31, 2023.

Market Value of Direct and Indirect Exposure as of: **3/31/2023**

OPERS

	Manager	Mandate	JPMorgan Chase & Co	Bank of America N.A.	Wells Fargo & Co.	BlackRock, INC	State Street Corp.	Stepstone VC Global Partners	GCMGrosvenor	Grand Total
Direct Public Equities										
	State Street Global Advisors	Enhanced US Equity	6,848,963	1,009,780	103,916					**7,962,660**
	Newton Investment Management	Enhanced US Equity				2,944,128				**2,944,128**
Indirect Public Equities										
	BlackRock	Russell 1000 Index	18,205,198	9,621,045	6,867,872	4,753,494	1,263,369			**40,710,978**
	BlackRock	Russell 1000 Value Index	6,414,481	3,389,910	2,419,847	1,674,861	445,139			**14,344,238**
Direct Public Fixed Income										
	TCW MetWest	Core Plus Fixed Income	20,920,381	14,509,642	10,884,084					**46,314,107**
	Grand Total		**52,389,023**	**28,530,378**	**20,275,720**	**9,372,483**	**1,708,508**	**-**	**-**	**112,276,111**

	Manager	Mandate	Vehicle	Mandate Size
Contract Prohibition	State Street Global Advisors	Enhanced US Equity	Sep Account	617,732,680
	BlackRock	Core Fixed Income	Sep Account	1,633,151,470
	BlackRock	TIPS Index	Commingled	404,667,014
	BlackRock	R1000 Index	Commingled	1,828,285,989
	BlackRock	R1000 Value Index	Commingled	311,024,646
	BlackRock	ACWI ex-US Index	Commingled	1,758,044,020
	BlackRock	ACWI ex-US Growth Index	Commingled	342,678,018
	Grand Total			**6,895,583,836**

Market Value of Direct and Indirect Exposure as of: **3/31/2023**

URSJJ

	Manager	Mandate	JPMorgan Chase & Co	Bank of America N.A.	Wells Fargo & Co.	BlackRock, INC	State Street Corp.	Stepstone VC Global Partners	GCMGrosvenor	Grand Total
Indirect Public Equities										
	BlackRock	Russell 1000 Index	1,263,624	667,797	476,699	329,940	87,690			**2,825,751**
	BlackRock	Russell 2000 Index						12,207	3,138	**15,344**
Direct Public Fixed Income										
	TCW MetWest	Core Plus Fixed Income	761,261	443,759	409,422					**1,614,443**
	Grand Total		**2,024,885**	**1,111,557**	**886,122**	**329,940**	**87,690**	**12,207**	**3,138**	**4,455,538**

	Manager	Mandate	Vehicle	Mandate Size
Contract Prohibition				
	BlackRock	Core Fixed Income	Sep Account	56,712,246
	BlackRock	TIPS Index	Commingled	13,467,279
	BlackRock	R1000 Index	Commingled	126,902,822
	BlackRock	R2000 Index	Commingled	21,390,853
	BlackRock	ACWI ex-US Index	Commingled	105,827,152
	Grand Total			**324,300,352**

Estimated Commissions, Taxes, and Fees for Contractual Agreements and Direct Holdings

The divesture and contract prohibition mandates of the Act will impose meaningful costs on OPERS. Buying and selling securities in global financial markets is not costless. Those costs include commissions to broker/dealers, taxes, and fees to facilitate trading activity. Commissions, taxes, and fees are not the only costs OPERS will incur. However, those are the only costs that can be reasonably accurately estimated prior to conducting trading activity; these are referred to explicit costs.

There are additional frictional costs associated with trading activity that result in a loss of market value to the Fund, known as implicit costs. These costs are a function of market dynamics at the time trading takes place, and may not be accurately estimated prior to trading, but are known only after all activity has occurred. The total effect (i.e. loss in market value) of the implicit costs tends to be higher than the explicit costs for a given action. A full discussion of Implementation Shortfall and OPERS' historical experience is included in Appendix D.

The table below details the estimated explicit costs associated with divestment of our Direct holdings and termination of contractual agreements with Restricted Financial Companies. Direct holdings are defined as "all securities of that financial company held directly by a state governmental entity in an account or fund in which a state governmental entity owns all shares or interests." The estimates for the explicit costs were derived from discussions with managers who operate in the appropriate asset class impacted by potential divesture actions.

The total estimated commissions/fees/taxes represent the estimated explicit cost to OPERS to divest and reacquire similar exposure (i.e. a "round trip" trade). Several index funds managed by BlackRock were assumed that the transition could be facilitated via in-kind transfers of the underlying holdings of the funds, therefore no costs were associated with these exposures.

Commission and Other Cost Estimates as of: **March 31, 2023**

OPERS

	Manager/Class	Mandate	Assets ($)	% Policy	% Actual	Estimated Cost to Liquidate/Redeem		Estimated Cost to Reacquire Exposure		Total Estimated Commission/Fees/ Taxes
Prohibited Contract Exposure-Listed Financial Company acts as advisor to Fund	**BlackRock**									
	Fixed Income	Core Fixed Income	1,633,151,470	15.50%	15.08%	2,939,673		2,939,673		5,879,345
		TIPS Index	404,667,014	3.50%	3.74%	-		-		-
	US Equity	R1000 Index	1,828,285,989	17.00%	16.88%	-		-		-
		R1000 Value Index	311,024,646	3.00%	2.87%	-		-		-
	Non-US Equity	ACWI ex-US Index	1,758,044,020	16.00%	16.24%	727,842		2,251,147		2,978,988
		ACWI ex-US Growth Index	342,678,018	3.00%	3.16%	139,907		437,674		577,582
		Subtotal	**6,277,851,156**	**58.00%**	**57.98%**	**3,807,422**		**5,628,494**		**9,435,915**
	State Street Global Advisors									
	US Equity	Enhanced US Equity	617,732,680	5.50%	5.70%	30,887		30,887		61,773
Direct Exposure to Listed Financial Company	**Newton**									
	US Equity	Enhanced US Equity (Direct)	2,944,128	NA	0.03%	147		147		294
	MetWest									
	Fixed Income	Core Plus (Direct Market Value)	46,314,107	NA	0.43%	109,996	*	109,996	*	219,992
		Grand Total	**6,944,842,071**	**63.50%**	**64.14%**	**3,948,451**		**5,769,524**		**9,717,975**

*Commission, bid/ask cost estimate based on Par Value

Commission and Other Cost Estimates as of: **March 31, 2023**

URSJJ

	Manager/Class	Mandate	Assets ($)	% Policy	% Actual	Estimated Cost to Liquidate/Redeem		Estimated Cost to Reacquire Exposure		Total Estimated Commission/Fees/ Taxes
Prohibited Contract Exposure-Listed Financial Company acts as advisor to Fund	**BlackRock**									
	Fixed Income	Core Fixed Income	56,712,246	15.50%	15.34%	102,082		102,082		204,164
		TIPS Index	13,467,279	3.50%	3.64%	-		-		-
	US Equity	R1000 Index	126,902,822	34.00%	34.32%	-		-		-
		R2000 Index	21,390,853	6.00%	5.79%	-		-		-
	Non-US Equity	ACWI ex-US Index	105,827,152	28.00%	28.62%	43,813		135,510		179,323
		Subtotal	**324,300,352**	**87.00%**	**87.72%**	**145,895**		**237,592**		**383,487**
Direct Exposure to Listed Financial Company	**MetWest**									
	Fixed Income	Core Plus (Direct Market Value)	1,614,443	NA	0.44%	3,789	*	3,789	*	7,577
		Grand Total	**325,914,795**	**87.00%**	**88.15%**	**149,684**		**241,381**		**391,065**

*Commission, bid/ask cost estimate based on Par Value

The total estimated cost of commissions, taxes, and fees for the divestment activity mandated under the Act is $9.7 million for OPERS and $391 thousand for URSJJ. These estimates represent only the costs that may be reasonably accurately estimated prior to trading activity occurring. The final market value losses incurred by the System due to divestment actions are potentially multiple times the estimate given, due to the implicit costs associated with the action.

Indirect Exposure to Restricted Financial Companies

Indirect holdings are defined as “all securities of that financial company held in an account or fund, such as a mutual fund, managed by one or more persons not employed by a state governmental entity, in which the state governmental entity owns shares or interests together with other investors not subject to the provisions of this act.”

Passively managed index funds are designed to provide broadly diversified exposure to a given asset class or market segment. The index funds in which OPERS invests are commingled with other investors. This means that OPERS owns shares in the fund itself; OPERS does not own the shares of the underlying companies that comprise the index fund. The exposure to the underlying companies is considered indirect—gained only through the composition of the fund itself.

As shown below, index funds are comprised of holdings that are included in the list of Restricted Financial Companies. Depending on the composition of the index, these companies could represent a significant proportion of a sector in which the restricted company is classified by the index provider.

The impact of divesting Indirect holdings (acquired from the index funds that own Restricted Financial Companies) is not represented in the Commission and Fee Cost Estimates shown above. This is because the index funds, where Restricted Financial Companies may be included within the fund, are advised by BlackRock--which is itself a Restricted Financial Company. The estimated commission/taxes/fee cost due to transitioning to index funds advised by a non-Restricted Financial Company is reflected in the table above.

However, the elimination of Restricted Financial Companies from Indirect holdings has implications going forward. As shown in the following chart, Restricted Financial Companies comprise a portion of the respective indices held in the OPERS and URSJJ portfolios.

Russell 1000 Index as of:	3/31/2023	
Financial Sector % of Index		13.2%
	Sector	% of Index
BLACKROCK, INC	Financials	0.3%
WELLS FARGO & CO.	Financials	0.4%
JPMORGAN CHASE & CO.	Financials	1.0%
BANK OF AMERICA N.A.	Financials	0.5%
STATE STREET CORP.	Financials	0.1%
Total		2.23%

Russell 1000 Value Index as of:	3/31/2023	
Financial Sector % of Index		20.1%
	Sector	% of Index
BLACKROCK, INC	Financials	0.5%
WELLS FARGO & CO.	Financials	0.8%
JPMORGAN CHASE & CO.	Financials	2.1%
BANK OF AMERICA N.A.	Financials	1.1%
STATE STREET CORP.	Financials	0.1%
Total		4.6%

Russell 2000 Index as of:	3/31/2023	
Financial Sector % of Index		15.89%
	Sector	% of Index
STEPSTONE GROUP INC CLASS A	Financials	0.06%
GCM GROSVENOR INC CLASS A	Financials	0.01%
Total		0.07%

The prohibition of companies that comprise certain sectors contained in the index is likely to create deviations in the returns of the portfolio versus the index. An analysis of model portfolios' performance over a period of eight years shows that eliminating the Restricted Financial Companies from the indices would have produced an annualized tracking error of 37 basis points relative to the Russell 1000 Index and 73 basis points relative to the Russell 1000 Value Index. The typical range of tracking error for an index fund is 4-5 basis points. As indexes represent benchmarks for asset class or market segment performance (i.e. it is, by definition, a benchmark-aware strategy), eliminating the Restricted Financial Companies from inclusion in the index will likely result in an aggregated expected deviation from the performance of the benchmark going forward.

Securities Lending Program Considerations

OPERS participates in a securities lending program, administered by Northern Trust. OPERS earns approximately $1-2 million per year on the program. The securities lending collateral account has custom guidelines to control risks contained in that pool of assets. Currently, exposure to individual issuers is limited to 10% of the fund.

Divesting from Restricted Financial Companies, many of whom participate in the repurchase agreement market, would reduce the number of eligible issuers available to the pool. This would likely require a change to the current guidelines to increase issuer limits to 15-20% of the fund, which would increase concentration within the fund and decrease the benefits of diversification. In addition, depending on the interpretation of a Restricted Financial Company, combined exposure to Restricted Financial Companies was over 35% of the total borrowing as of 3/31/23. Prohibiting those entities from participating in the program reduces the pool of prospective borrowers, which has the potential to seriously impair the earnings of the program going forward.

Summary

The estimated explicit cost to OPERS for commission/taxes/fees related to the action of divestiture of Direct holdings and the transition of portfolios advised by Restricted Financial Companies as provided by the Energy Discrimination Elimination Act is approximately $9.7 million for OPERS and $391 thousand for URSJJ. It is conceivable that the total loss in market value experienced by the Plans due to these actions could potentially be multiple times that of the estimated costs stated above. These estimates clearly indicate a loss in value of assets under management for the OPERS and URSJJ Plans. In addition, divesting indirect exposure to Restricted Financial Companies indicates those affected portfolios will experience forward-looking performance that will deviate from its benchmark.

Board Options:

The Board can take the fiduciary exemption provided for in the Act, which means OPERS will not be subject to any requirement of the Act (74 O.S. §12002(D)(3)). The Board's fiduciary duty is provided for in 74 O.S. §909.1:

> *Duty to discharge your duties as a trustee in the interests of the participants and beneficiaries and for the exclusive purpose of providing benefits to participants and their beneficiaries and defraying reasonable expenses of administering the System.*

The Oklahoma Constitution, Art. 23 §12, also provides:

> *All the proceeds, assets and income of any public retirement system administered by an agency of the State of Oklahoma shall be held, invested, or disbursed as provided for by law as in trust for the exclusive purpose of providing for benefits, refunds, investment management, and administrative expenses of the individual public retirement system, and shall not be encumbered for or diverted to any other purposes.*

The Board can take the specific exemption related to indirect investments. OPERS is not required to divest from any indirect holdings in actively or passively managed investment funds. 74 O.S. §12003(E). However, OPERS must request the managers of such funds to remove those companies on the Restricted Financial Company list from the fund or create a similar fund devoid of the listed companies. These will only impact the securities to be divested, not any contracts with investment advisors.

After the 90th day, the Board can begin divestment of any affected direct securities.

The Board may delay the schedule for any divestment only to the extent that it determines, in its good-faith judgment, and consistent with its fiduciary duty, that divestment from listed financial companies will likely result in a loss in value or a benchmark deviation. 74 O.S. §12003(D)(3).

After the 90th day, the Board can terminate the manager agreements and hire new advisors (74 O.S. §12005) or the Board can determine such terminations are inconsistent with the Board's constitutional or statutory duties related to the issuance, incurrence, or management of debt obligations or the deposit, custody, management, borrowing, or investment of funds, and determines such services are not available from a company not listed. 74 O.S. §12005(B)(4).

The Board can issue RFPs for advisors and mandates with the objective of replacing Restricted Financial Companies in which OPERS currently contracts for investment advisory services.

OPERS RECORDS05/08/'23 AM10:19

Todd Russ
State Treasurer

2300 N. Lincoln Blvd., Room 217
Oklahoma City, OK 73105

Oklahoma State Treasurer

May 3, 2023

Executive Director Joe Fox
Oklahoma Public Employees Retirement System
Post Office Box 53007
Oklahoma City, Oklahoma 73152-3007

Director Fox;

This letter serves as the formal notice of the Restricted Financial Company List as referenced in the below paragraphs.

Pursuant to 74 O.S. § 12003(A) of The Energy Discrimination Elimination Act of 2022, the Oklahoma State Treasurer is required to prepare and maintain a list of financial companies that boycott energy companies, as defined in 74 O.S. § 12002 (A)(l). Financial Companies included on this list are referred to herein as "Restricted Financial Companies."

Pursuant to 74 O.S. §12003(B), not later than the thirtieth day after a state governmental entity receives notice of this list of Restricted Financial Companies, the state governmental entity shall notify the Treasurer of the Restricted Financial Company(s) in which the state governmental entity owns direct or indirect holdings, and, send a written notice to the Restricted Financial Company(s) as prescribed in 74 O.S. § 12003(C)(l)(a-c). The complete list is enclosed.

If you have any questions, feel free to contact my office.

Sincerely,

Todd Russ

OPERS RECORDS05/08/'23 AM10:19

TODD Russ
STATE TREASURER

2300 N. LINCOLN BLVD., ROOM 217
OKLAHOMA CITY, OK 73105

OKLAHOMA STATE TREASURER

RESTRICTED FINANCIAL COMPANY LIST

Pursuant to 74 O.S. § 12003 (A) of the Energy Discrimination Elimination Act of 2022, the Oklahoma State Treasurer is required to prepare and maintain a list of financial institutions that boycott energy companies as defined in 74 O.S. §12002(A)(l). Financial companies included on the list are referred to herein as "Restricted Financial Companies."

Pursuant to 74 O.S. §12003(B), not later than the thirtieth day after a state governmental entity receives notice of this list of Restricted Financial Companies, the state governmental entity shall notify the Treasurer of the Restricted Financial Company(s) in which the state governmental entity owns direct or indirect holdings, and, send a written notice to the Restricted Financial Company(s) as prescribed in 74 O.S. § 12003(C)(l)(a-c).

Not later than 90 days of a Restricted Financial Company's receipt of notice under 74 O.S. §12003(C)(2), the financial company must cease engaging in the energy company boycott to avoid qualifying for divestment by the state governmental entity.

The State Treasurer shall, at a minimum; update this list on a per annum basis.

Pursuant to 74 O.S. § 12002, et seq., and based upon thorough review of responses to a questionnaire requesting written verification sent by the Oklahoma State Treasurer, publicly available statements, commitments, and/or any company's failure to respond to the questionnaire required under 74 O.S. § 12003(A)(1)(2), the Oklahoma State Treasurer's Office has determined that the financial companies listed below are engaging in energy company boycotts. Accordingly, each is hereby placed on the Oklahoma State Treasurer's Restricted Financial Companies List.

- BLACKROCK, INC
- WELLS FARGO & CO.
- JPMORGAN CHASE & CO.
- BANK OF AMERICA N.A.
- STATE STREET CORP.
- GCM GROSVENOR
- LEXINGTON PARTNERS
- FIRSTMARK CAPITAL
- STEPSTONE VC GLOBAL PARTNERS
- WCM INVESTMENT MANAGEMENT
- WILLIAM BLAIR
- ACTIS
- CLIMATE FIRST BANK

Signed: Todd Russ

Effective Date: **May 3, 2023**

todd.russ@treasurer.ok.gov • (405) 521-3191

Joseph A. Fox
Executive Director

OPERS OKLAHOMA

J. Kevin Stitt
Governor

May 25, 2023

Todd Russ
Oklahoma State Treasurer
2300 N. Lincoln Blvd., Room 217
Oklahoma City, OK 73105

Sent via email no hard copy to follow.

RE: Energy Discrimination Elimination Act of 2022

Treasurer Russ:

On May 8, 2023, the Oklahoma Public Employees Retirement System (OPERS) received your notice, dated May 3, 2023, of the Restricted Financial Company List you prepared under the Oklahoma Energy Discrimination Elimination Act of 2022 (74 O.S. §§12001-12006) (the Act).

Under §12003(B) of the Act, OPERS is required within 30 days of receiving the Restricted Financial Company List to notify you of any financial companies in which OPERS owns direct or indirect holdings as those terms are defined in §12002 of the Act.

As of March 31, 2023, OPERS had direct holdings in BlackRock, Inc., Wells Fargo & Co., JPMorgan Chase & Co., and Bank of America N.A. OPERS had indirect holdings through index funds in the entities listed above, in addition to GCM Grosvenor and StepStone VC Global Partners.

Lastly, BlackRock, Inc., and State Street Corp. each act in a capacity as investment advisors to the retirement plans administered by OPERS, managing one or more mandates for the System.

Please contact me if you have any questions.

Sincerely,

Joseph A. Fox
Executive Director

cc: Chair, OPERS Board of Trustees

Joseph A. Fox
Executive Director

J. Kevin Stitt
Governor

May 25, 2023

Ray de Castro
BlackRock Inc.
50 Hudson Yards
New York, NY 10001
Sent via email no hard copy to follow

Re: Oklahoma Energy Discrimination Elimination Act of 2022

Dear Mr. de Castro:

Pursuant to the Oklahoma Energy Discrimination Elimination Act of 2022 (the Act) (74 O.S. §12001 - 12006), the Oklahoma Public Employees Retirement System is required to inform you that BlackRock Inc. has been placed on a "Restricted Financial Company List" by the Oklahoma State Treasurer. A Restricted Financial Company is considered to boycott energy companies under the Act.

Section 12002(A)(1) of the Act defines boycotting energy companies as refusing to deal with, terminating business activities with, or otherwise taking any action that is intended to penalize, inflict economic harm on, or limit commercial relations with a company, without an ordinary business purpose, because the company engages in the exploration, production, utilization, transportation, sale, or manufacturing of fossil-fuel-based energy and does not commit or pledge to meet environmental standards beyond applicable federal and state law, or because the company does business with a company described herein.

Section 12003(C)(1) of the Act requires OPERS to send written notice to each listed company:

a. informing the financial company of its status as a listed financial company,
b. warning the financial company it may become subject to divestment by state governmental entities 90 days after the date the financial company receives notice, and
c. offering the financial company the opportunity to clarify its activities related to energy companies.

Under Section 12003(C)(2), BlackRock has 90 days after receiving this notice, or until August 23, 2023, to cease boycotting energy companies to avoid qualifying for divestment by OPERS. If during this period BlackRock ceases boycotting energy companies, the State Treasurer shall remove BlackRock from the restricted financial company list and the Act will no longer apply unless BlackRock resumes boycotting energy companies.

According to the State Treasurer,

> *"The placement of your company was a direct result of either failing to return the completed questionnaire within 60 after receiving it 74 O.S. §12003 (A)(2) and therefore are presumed to be boycotting energy companies or the answers you provided regarding*

> *your companies policies pertaining to the prohibition of investments in energy companies, and or fossil fuel-based energy companies and/or your membership and actions taken as a part of Net Zero Asset Managers Alliance initiative, Climate Action 100+, or the Net Zero Banking Alliance."*

Please direct all questions to Oklahoma State Treasurer Todd Russ.

Respectfully,

Joseph A. Fox
Executive Director

cc: Chair, OPERS Board of Trustees

Joseph A. Fox
Executive Director

J. Kevin Stitt
Governor

May 25, 2023

David Settles
State Street Global Advisors
One Lincoln Street, 33rd Floor
Boston, MA 02111
Sent via email no hard copy to follow

Re: Oklahoma Energy Discrimination Elimination Act of 2022

Dear Mr. Settles:

Pursuant to the Oklahoma Energy Discrimination Elimination Act of 2022 (the Act) (74 O.S. §12001 - 12006), the Oklahoma Public Employees Retirement System is required to inform you that State Street Corp. has been placed on a "Restricted Financial Company List" by the Oklahoma State Treasurer. A Restricted Financial Company is considered to boycott energy companies under the Act.

Section 12002(A)(1) of the Act defines boycotting energy companies as refusing to deal with, terminating business activities with, or otherwise taking any action that is intended to penalize, inflict economic harm on, or limit commercial relations with a company, without an ordinary business purpose, because the company engages in the exploration, production, utilization, transportation, sale, or manufacturing of fossil-fuel-based energy and does not commit or pledge to meet environmental standards beyond applicable federal and state law, or because the company does business with a company described herein.

Section 12003(C)(1) of the Act requires OPERS to send written notice to each listed company:

a. informing the financial company of its status as a listed financial company,
b. warning the financial company it may become subject to divestment by state governmental entities 90 days after the date the financial company receives notice, and
c. offering the financial company the opportunity to clarify its activities related to energy companies.

Under Section 12003(C)(2), State Street has 90 days after receiving this notice, or until August 23, 2023, to cease boycotting energy companies to avoid qualifying for divestment by OPERS. If during this period State Street ceases boycotting energy companies, the State Treasurer shall remove State Street from the Restricted Financial Company List and the Act will no longer apply unless State Street resumes boycotting energy companies.

According to the State Treasurer,

> *"The placement of your company was a direct result of either failing to return the completed questionnaire within 60 after receiving it 74 O.S. §12003 (A)(2) and therefore are presumed to be boycotting energy companies or the answers you provided regarding*

> *your companies policies pertaining to the prohibition of investments in energy companies, and or fossil fuel-based energy companies and/or your membership and actions taken as a part of Net Zero Asset Managers Alliance initiative, Climate Action 100+, or the Net Zero Banking Alliance."*

Please direct all questions to Oklahoma State Treasurer Todd Russ.

Respectfully,

Joseph A. Fox
Executive Director

cc: Chair, OPERS Board of Trustees

Appendix D

The trading of financial assets (stocks and bonds) results in costs imposed on investors. An investor may be able to estimate the components of those overall costs somewhat accurately in advance, as in the case of explicit costs, but may not be able to estimate those costs in advance, as in the case of implicit costs. These frictional costs involved in trading, which combine to detract from the value of the portfolio being traded, can be measured by a benchmark called implementation shortfall. The overall value detracted from a portfolio, as measured by implementation shortfall, is the difference in returns between the actual portfolio held through the transition period and a theoretical, perfect transition into the target portfolio without commission, taxes or fees at closing prices the day before trading started.

Explicit Costs

Commissions are an execution fee levied by a broker/dealer to facilitate the trade. These costs are expressed either in basis points or cents per share. Commissions charged are an explicit cost because they can be measured directly and are typically stipulated prior to transition execution. In addition to commissions, explicit costs include taxes and fees charged by regulatory entities. For example, the U.K. charges a 50 basis points stamp tax on all purchases.

Implicit Costs

Spread, market impact and opportunity risk are all implicit costs in that they are collectively derived from the price performance achieved after trading activity has taken place. Implicit costs are either a measurement of estimated trading costs or a function of market dynamics.

The spread on a stock is defined as the difference between the price that the stock is bid and the price at which it is offered. This bid/ask spread is a function of market dynamics at the time of trading.

Market impact is defined as the detrimental movement of a security's price away from the purchaser or seller when there is insufficient supply or demand to meet the volume required to complete the desired trade. This effect may be minimized through a variety of trading techniques; however it is typically increased if the market becomes aware of the nature of a restructuring.

Opportunity cost is the movement in security pricing due to market factors from single stock, sector, or index performance during the transition period. The opportunity cost (or risk) is defined as the tracking error between the legacy and target portfolios over the life of the transition. It is an estimation of the potential price divergence of the selling and buying activity due to the differing portfolio characteristics.

Analysis of OPERS' Historical Portfolio Actions

The table below details the actual results from portfolio restructuring activity conducted by OPERS. These were actions in which the Board retained a transition manager to conduct the trading necessary to facilitate the action. The actions consisted of portfolio restructuring, manager replacement, or repositioning in the U.S. and non-U.S. equity asset classes. The transition manager provided the post-trade implementation shortfall cost analysis after the activity was completed. These represent the explicit and implicit costs associated with the activity.

Impementation Shortfall Detail

Date	Portfolio Action	Amount Transitioned	Implementation Shortfall Detail	$	Total Cost in Basis Points	As % of Total Cost
January 2017	Manager Transition	$ 252,498,656	Commissions	$ 46,220		10.8%
	Westfield Hire	In-Kind Transfer:	Tax	$ 3,595		0.8%
		35%	Spread Cost	$ 55,471		13.0%
			Impact Cost	$ 101,490		23.8%
			Opportunity Cost	$ 219,443		51.5%
					Bps	
			Total Cost	**$ 426,219**	**17**	**100.0%**
October 2013	Manager Transition	$ 252,917,269	Commissions	$ 156,849		13.5%
	Baillie Gifford Hire	In-Kind Transfer:	Tax	$ 283,095		24.4%
		13%	Spread Cost	$ 180,428		15.5%
			Impact Cost	$ 418,500		36.0%
			Opportunity Cost	$ 84,642		7.3%
			Currency	$ 38,340		3.3%
					Bps	
			Total Cost	**$ 1,161,854**	**46**	**100.0%**
April 2012	Manager Transition	$ 148,104,277	Commissions	$ 38,534		15.3%
	Mondrian Reduction	In-Kind Transfer:	Tax	$ 49,206		19.5%
		54%	Spread Cost	$ 69,933		27.8%
			Impact Cost	$ 46,197		18.3%
			EM Fund Purchase	$ 27,112		10.8%
			Opportunity Cost	$ 22,076		8.8%
			Currency	$ (1,049)		-0.4%
					Bps	
			Total Cost	**$ 252,009**	**17**	**100.0%**
August 2010	Manager Transition	$ 1,364,886,257	Commissions	$ 87,480		24.8%
	US Equity Restructuring	In-Kind Transfer:	Tax	$ 849		0.2%
		96%	Spread Cost	$ 60,830		17.3%
			Impact Cost	$ 149,731		42.5%
			Opportunity Cost	$ 53,400		15.2%
					Bps	
			Total Cost	**$ 352,290**	**3**	**100.0%**

There are three important points demonstrated in this table. The first is implicit costs tend to dominate the explicit costs when determining the total implementation shortfall, and those implicit costs cannot be accurately estimated prior to trading activity but are realized primarily as a result of the market environment when the trading activity occurs. This is true even when a transaction has relatively frictionless characteristics, like the August 2010 U.S. Equity Restructuring whereby 96% of the existing portfolio was transferred in-kind to the target portfolio. The second point is that generally, the more dissimilar the existing portfolio and the target portfolio are (i.e. lower in-kind transfer percentage above) the greater the total implementation shortfall (and value lost); not only from explicit costs, but also potentially implicit costs as well. The last important point the table demonstrates is that for activity pertaining to non-U.S. Equity exposure, taxes comprised a rather large and meaningful proportion of the value lost in the execution of the portfolio action.