

Kim Reynolds  
GOVERNOR

Adam Gregg  
LT. GOVERNOR



Donna M. Mueller  
CHIEF EXECUTIVE OFFICER

September 30, 2019

Honorable W. Charles Smithson,  
Secretary of the Senate  
Honorable Elizabeth Isaacson,  
Chief Clerk of the House  
General Assembly of the State of Iowa  
Des Moines, IA 50319

Dear Mr. Smithson and Ms. Isaacson:

Enclosed is the Iowa Public Employees' Retirement System's report for the fiscal year ended June 30, 2019, on divestment activities related to companies doing business in the Sudan. This annual report is required by Iowa Code section 12F.5.

The report describes IPERS' implementation of the Sudan divestment program and provides information on IPERS divestment activities and costs. The report also includes a list of prohibited companies as of June 30, 2019.

Sincerely,

A handwritten signature in blue ink that reads "Donna M. Mueller". The signature is fluid and cursive.

Donna M. Mueller  
Chief Executive Officer

Enclosure

**IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
ANNUAL REPORT  
ON SUDAN DIVESTMENT  
For the Fiscal Year Ended June 30, 2019**

Iowa Code chapter 12F requires the Iowa Public Employees' Retirement System (IPERS) to scrutinize companies with business operations in the Sudan, and under certain circumstances, to restrict its purchases of, and/or divest of, holdings of any company determined to have active business operations in the Sudan. Chapter 12F specifies certain procedures to be followed in engaging companies doing business in the Sudan, and requires IPERS to annually report to the General Assembly on its activities concerning the Sudan divestment law.

**Implementation**

IPERS developed a list of scrutinized companies using the research and findings of ISS-Ethix (ISS) in fiscal year 2019. IPERS considers companies characterized by the ISS as "Scrutinized" to be companies with active business operations in the Sudan.

IPERS sends a letter to each company with active business operations asking them to discontinue their operations in the Sudan. Companies are given the opportunity to provide evidence that contradicts ISS' findings. The letter also notifies the company that IPERS will prohibit further investment and divest of its holdings in the company's securities if the company does not meet the requirements of the law. If the company does not respond, or fails to provide convincing evidence within the time period established by law, then IPERS places the company on its prohibited companies list. The prohibited companies list is updated quarterly, and is provided to the public on IPERS' web site at [www.ipers.org](http://www.ipers.org).

IPERS' investment managers are prohibited from purchasing securities issued by companies on the prohibited companies list. Investment managers that have any existing direct holdings<sup>1</sup> of a prohibited company must sell (divest) the position within 18 months of the date the company was first notified. An investment manager has the discretion to decide when to sell its holdings within the 18-month period.

Chapter 12F requires IPERS to engage only those scrutinized companies in which it has direct holdings. However, IPERS has opted to send letters to all scrutinized companies, and will place a scrutinized company on the prohibited companies list if warranted,

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<sup>1</sup> It is important to note that chapter 12F makes a distinction between direct holdings and indirect holdings. *Direct holdings* are securities directly owned and held in IPERS' name. *Indirect holdings* refer to situations where IPERS may indirectly own an interest in a security because of its ownership of shares in a commingled investment vehicle, such as a mutual fund. The General Assembly recognized that it may not be possible to efficiently divest of prohibited companies held in a commingled fund, and exempted indirect holdings from many provisions of chapter 12F. IPERS is required to analyze the prudence of moving its indirect holdings to Sudan-free commingled funds if such an option exists. See section on Indirect Holdings.

regardless of whether or not IPERS has any direct holdings in the company. This is done because IPERS prefers to engage a company and determine whether it is a prohibited company before an investment manager purchases any securities of such company. The investment manager wants to know if a company is prohibited before buying it - not afterwards.

Chapter 12F also requires IPERS to contact companies that have inactive business operations in the Sudan. However, the purpose of such letter is to encourage them to keep their business activities inactive until the genocide stops in the Sudan. IPERS uses information from ISS to determine which companies have inactive business operations in the Sudan.

### **Fiscal Year 2019 Engagement Activity**

The following chart summarizes the numbers of companies contacted by IPERS in fiscal year 2019 pursuant to chapter 12F.

<b>Time Period</b>	<b>Number</b>
Sept. 30, 2018	0
Dec. 31, 2018	1
Mar. 31, 2019	4
June 30, 2019	0

In total, letters were sent to five companies under scrutiny for active business operations. Only one response was received to these letters in fiscal year 2019. IPERS updates and publishes its prohibited companies list on a quarterly basis. During fiscal year 2019, four companies were added to the prohibited companies list, and three companies were removed. The companies were removed because ISS no longer considered them to be "Scrutinized". IPERS' prohibited companies list as of June 30, 2019 is included as Appendix A to this report.

In addition, IPERS staff sent annual reminder letters to the twenty-three companies that are on IPERS prohibited list on August 15, 2019, encouraging them to transform their active Sudan operations into inactive operations. Chapter 12F requires this annual communication with each company on the prohibited companies list. Additionally, we received responses from one company to the annual letters that were sent in 2018. None of those responses provided new information that required reconsideration.

## **Fiscal Year 2019 Divestment Activity**

IPERS had no direct holdings of prohibited securities in fiscal year 2019.

### **Indirect Holdings**

As noted earlier, chapter 12F makes a distinction between direct and indirect holdings. IPERS' had indirect holdings in seven companies listed on the prohibited companies list on June 30, 2019 that were valued at \$10,425,018.91, which was less than 0.04% of the total IPERS Fund value. While indirect holdings are generally exempt from most of the provisions of the law, IPERS is required to evaluate the potential costs associated with moving its indirect investments to funds that will comply with chapter 12F, if it is prudent to do so. Based on potential trading costs & fees, IPERS does not believe it is prudent to take such action given the relatively small indirect exposures to prohibited companies.

### **Fiscal Year 2019 Program Costs**

The cost to implement the Sudan monitoring and divestment program has been very low so far. IPERS incurred third party costs of \$1,667.00 for research services in fiscal year 2019, and did not incur any staff overtime costs to implement the program.

### **For More Information**

See IPERS' Web site at <https://www.ipers.org/about-us/investments/sudan-investment-restrictions> for quarterly updates throughout the year. We can be reached by e-mail at [investments@ipers.org](mailto:investments@ipers.org) or by telephone at 515-281-0030.

# Appendix A

## Iowa Public Employees' Retirement System's Sudan Prohibited Companies List

May 15, 2019

Divestment Date \*

» Anton Oilfield Services Group	
» Arabian Pipes Co	
» Asec Company for Mining	
» Baker Hughes	August 13, 2020
» China Energy Engineering Corporation Limited	August 13, 2020
» China Yangtze Power Co	August 13, 2020
» Dongfeng Motor Group Co. Ltd. (DFL)	
» Dubai Investments	
» El Sewedy Electric Company	
» Gtl Otkrytoe Aktsionernoe Obshchest	
» Harbin Electric Company Ltd.	
» Indian Oil Corporation Ltd. (IOCL)	
» Kuwait Finance House	
» Managem	
» Muhibbah Engineering (Malaysia) Bhd	
» Oil and Natural Gas Corporation Ltd. (ONGC)	
» Oil India Ltd.	
» Orca Gold Inc.	
» PetroChina Co. Ltd.	
» Qalaa Holdings	
» Siemens AG	
» Sinopec Corporation (China Petroleum and Chemical Corporation)	
» The Energy House Holding Co. K.S.C.C.	

» Denotes wholly- or majority-owned subsidiaries, parent companies, or affiliates of companies that have the most problematic operations in Sudan.

\* Denotes deadline for divesting of security.