

September 28, 2011


Honorable Mike Marshall,
Secretary of the Senate
Honorable Mark Brandsgard,
Chief Clerk of the House
General Assembly of the State of Iowa
Des Moines, IA 50319

Dear Messrs. Marshall and Brandsgard:

Enclosed is the Iowa Public Employees' Retirement System's report for the fiscal year ended June 30, 2011, on divestment activities related to companies doing business in the Sudan. This annual report is required by section 12F.5 of the Code of Iowa.

The report describes IPERS' implementation of the Sudan divestment program and provides information on IPERS divestment activities and costs as well as an update on the current situation in Sudan. The report also includes a list of prohibited companies as of June 30, 2011.

Sincerely,



Donna M. Mueller
Chief Executive Officer

Enclosure

**IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
ANNUAL REPORT
ON SUDAN DIVESTMENT
For the Fiscal Year Ended June 30, 2011**

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 develops a list of scrutinized companies using the research and findings of the Conflict Resolution Network (CRN). The CRN, which was formerly known as the Sudan Divestment Task Force, is an organization that helped develop the legislation and is considered to be an authoritative source of information in this area. IPERS considers all companies characterized by the CRN as "Highest Offenders" 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 the CRN's 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.

IPERS' investment managers are prohibited from purchasing securities issued by companies on the prohibited companies list. Investment managers that have any existing direct holdings¹ 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.

¹ 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.

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, 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 CRN to determine which companies have inactive business operations in the Sudan.

Fiscal Year 2011 Engagement Activity

The following chart summarizes the numbers of companies contacted by IPERS in fiscal year 2011 pursuant to chapter 12F.

Time Period	Number
Sept. 30, 2010	7
Dec. 31, 2010	4
Mar. 31, 2011	4
June 30, 2011	14

In total, letters were sent to 29 companies under scrutiny for active business operations. IPERS received responses from only 8 companies, and none of them offered credible evidence to refute the CRN's findings. Based on the CRN's Sudan Company Report, it appears that CRN is having some success in getting scrutinized companies to at least engage in dialogue on the issue.

IPERS updates and publishes its prohibited companies list on a quarterly basis. During fiscal year 2011, 22 companies were added to the prohibited companies list, and 6 companies were removed. The companies were removed because the CRN no longer considered them to be Highest Offenders. IPERS' prohibited companies list as of June 30, 2011 is included as Appendix A to this report.

Fiscal Year 2011 Divestment Activity

There was no divestment activity in fiscal year 2011, because IPERS had no direct holdings in prohibited companies during the fiscal year.

Indirect Holdings

As noted earlier, chapter 12F makes a distinction between direct and indirect holdings. IPERS' had indirect holdings in three companies listed on the prohibited companies list on June 30, 2011 that were valued at \$5,416,588, which was less than one one-hundredths 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.

As reported in last year's annual report, IPERS investment staff collected information concerning the potential cost of moving its indirect holdings to Sudan-free alternatives in Fall 2007 and presented such information to the IPERS Investment Board at its December 6, 2007 meeting. The Investment Board agreed with staff that it was not prudent to incur the trading costs to eliminate such small indirect exposures to prohibited companies. The size of IPERS' indirect holdings has not materially changed since that time, so it is believed that transaction costs associated with moving to Sudan-free alternatives would continue to be cost prohibitive for the removal of such small exposures.

Fiscal Year 2011 Program Costs

The cost to implement the Sudan monitoring and divestment program have been very low so far. IPERS has been able to avoid payment of any staff overtime costs during the implementation phase of the program, and IPERS has not incurred any third party costs for research or other services by using the information made available by CRN. IPERS incurred no fees or commission costs in fiscal year 2011 because there was no divestment activity during the fiscal year.

Conclusion

The impact of the law on the situation in the Sudan is unknown. However, significant political changes have occurred in the Sudan. In January 2011, the people of southern Sudan overwhelmingly voted to separate from northern Sudan, and southern Sudan became an independent country on July 9, 2011. While independence for the people of the southern Sudan is good news, a number of issues remain unresolved that threaten to plunge the region back into violence. Please see the attached report from CRN describing the current situation in the Sudan.

For More Information

See IPERS' Web site at www.ipers.org/investments/restrictions.html for quarterly updates throughout the year. We can be reached by e-mail at investments@ipers.org or by telephone at 515-281-0030.

Appendix A

Iowa Public Employees' Retirement System's Prohibited Companies List

July 1, 2011

	<u>Divestment Date *</u>
» AKM Industrial Co. Ltd.	March 31, 2012
» Alstom	
» Alstom Projects India	
» AREF Energy Holding Company	December 31, 2010
» AviChina Industry & Technology Ltd.	
» Chemoil Energy Limited	June 30, 2012
» Chennai Petroleum Corporation Limited (CPCL)	
» China Hydraulic and Hydroelectric Construction Group Corporation (Sinohydro)	
» China National Petroleum Corporation (CNPC)	
» China North Industries Group Corporation (CNGC/NORINCO)	
» China North Industries Corporation (NORINCO)	
» China North Optical-Electric Technology Co. Ltd.	March 31, 2012
» China Petroleum Finance Co. Ltd.	March 31, 2012
» Daqing Huake Group Co. Ltd.	
» Dongfeng Motor Group Co. Ltd. (DFL)	December 31, 2011
» Egyptian Kuwaiti Holding Company	
» Electricity Generating Public Company Limited (EGCO)	
» Gas District Cooling PutraJaya Sdn Bhd	
» Glencore International PLC	December 31, 2011
» Hafei Aviation Industry	
» Harbin Dongan Auto Engine Co.	
» Indian Oil Corporation Ltd. (IOCL)	
» Jiangxi Hongdu Aviation (Hongdu Aviation)	
» Jinan Diesel Engine Co. Ltd	December 31, 2010
» JX Holdings, Inc.	December 31, 2011
» JX Nippon Oil & Energy Corporation	March 31, 2012
» Khanom Electricity Generating Co. Ltd.	
» Kingdream PLC	
» KLCC Property Holdings Bhd	
» KMCOB Capital Berhad	
» Kunlun Energy Co. Ltd.	September 30, 2012
» Lanka IOC Limited	
» Liaojing Huajin Tongda	December 31, 2011
» Managem	
» Mangalore Refinery and Petrochemicals Ltd.	
» Mercator Lines Limited	March 31, 2011
» Mercator Lines Singapore	June 30, 2012
» Midciti Resources Sdn Berhad	
» Minara Resources Limited	March 31, 2012
» MISC Berhad (Malaysia International Shipping Company)	
» MISC Capital	
» Nippon Oil Corporation	September 30, 2011
» Nippon Mining	December 31, 2011
» NORINCO International Cooperation Ltd.	
» Oil and Natural Gas Corp. Ltd. (ONGC)	

**Iowa Public Employees' Retirement System's
Prohibited Companies List**

July 1, 2011

Divestment Date *

» Oil India Limited	June 30, 2011
» ONA S.A.	
» ONGC Videsh Limited (OVL)	June 30, 2012
» Optimal Chemicals (Malaysia) Sdn Bhd	September 30, 2012
» Optimal Glycols (Malaysia) Sdn Bhd	September 30, 2012
» PetroChina	
» Petroliam Nasional Berhad (Petronas)	
» Petronas Capital Limited	
» Petronas Chemicals Group Berhad	September 30, 2012
» Petronas Dagangan	
» Petronas Gas	
» PTT Exploration & Production PCL	December 31, 2011
» PTT Public Company Ltd. (PTT)	June 30, 2011
» PTTEP Australia International Finance Proprietary Ltd.	June 30, 2012
» Ranhill Berhad	
» Ranhill Labuan Ltd	
» Ranhill Powertron Sdn	
» Scomi Engineering Berhad	
» Scomi Group Berhad	
» Sichuan Nitrocell Co. Ltd.	March 31, 2012
» Sinopec Corporation (China Petroleum and Chemical Corporation)	
» Sinopec Finance	
» Sinopec Group (China Petrochemical Corporation)	
» Sinopec Kanton Holdings	
» Sinopec Shanghai Petrochemical Co. Ltd.	
» Sinopec Yizheng Chemical Fibre Co. Ltd.	
» Societe Metallurgique D'imiter	
» Trafigura Beheer	December 31, 2011
» Wuhan Boiler Company	

» Denotes wholly- or majority-owned subsidiaries, parent companies, or affiliates of companies that have the most problematic operations in Sudan according to the Sudan Divestment Task Force model of targeted divestment.

* Denotes deadline for divesting of security.

CONFLICT RISK NETWORK

Conflict Risk Network Update: The Current Situation in Sudan and the Republic of South Sudan

August 31, 2011

Conflict Risk Network recently addressed the implications of southern Sudan's secession on U.S. divestment legislation in a memorandum that is available [here](#). This update is intended to provide a brief overview of the current issues on the ground that may have implications for businesses operating in Sudan.

South Sudan's Independence

Sudan's Comprehensive Peace Agreement (CPA), a 2005 accord which brought an end to 22 years of civil war between Sudan's north and south that cost two million lives, called for a January 2011 referendum on self-determination for southern Sudan. Between January 9th and 15th, the people of southern Sudan voted overwhelmingly to create a new state.¹ Accordingly, under the terms of the CPA, the new state of South Sudan officially came into being on July 9, 2011.

While the south's independence marks the official end of a decades-long struggle and the creation of the world's newest state, a number of contentious post-referendum issues remain unresolved, raising the specter of renewed conflict between the north and south. Questions regarding the sharing of oil revenue and debt, border demarcation, and ownership of the contested Abyei region remain unresolved despite the intention that they be agreed upon before July 9th.

In addition to the tensions and threats raised by these outstanding questions, violence in Sudan has been on the rise. Though the January referendum itself was relatively peaceful, the lead-up to independence saw increasing outbreaks of violence (between government troops, militias and other groups, sometimes along ethnic lines) in the still-contested border regions where many oil concessions are located.²

Areas affected by genocide, mass atrocities, and other conflicts differ significantly from stable operating environments. They exhibit instability, unpredictable conditions, and contexts in which rights violations are ongoing, presenting companies with greater challenges in ensuring they do not infringe on human rights. Not only is it more difficult for companies to do no harm in such settings, but the failure to adhere to standard corporate responsibility practices carries the potential for heightened impacts on communities and on companies themselves.

Abyei

In May, more than 113,000 people were displaced when the Sudanese army occupied the contested border town of Abyei.³ Adjacent to the oil-rich Heglig region, Abyei has political and economic significance for the north and south, both of which have claimed it. The move heightened fears of a reignited war between the north and south.⁴ On June 20, the Government of Sudan agreed to withdraw its troops and to let Ethiopian peacekeepers patrol the area; however, Khartoum continues to refuse to withdraw until those troops are fully deployed.⁵

South Kordofan

In addition to their operations in Abyei, in June northern forces began attacks on the Nuba Mountains in South Kordofan. Though South Kordofan remains within Sudan's borders, many residents supported the Southern Sudan People's Liberation Army (SPLA) during the country's civil war from 1983-2005. Sudan Armed Forces (SAF) personnel are targeting the Nuba ethnic group in what they say is a campaign against forces aligned with the south; however, other observers, including the United Nations have alleged that "sectarian violence" is taking place between different ethnic groups in the state.⁶ SAF attacks in Kadugli, Kauda and elsewhere have displaced over 200,000 people.⁷ There have also been reports of SAF bombings across the border into South Sudan.

Internal Unrest

Following presidential elections in April 2010 a number of losing candidates and aggrieved groups in South Sudan rebelled in Unity, Jonglei and Upper Nile states. The internal unrest increased this spring when a former SPLA general defected. Rebel groups accuse the Sudan People's Liberation Movement (SPLM)-dominated government of being corrupt and autocratic. Meanwhile, the terrorist group the Lord's Resistance Army (LRA) continues to commit atrocities in Western Equatoria state. Additionally, tribal fighting and cattle raids in Warrap, Jonglei, and Lakes states have contributed to the over 1,500 deaths in South Sudan so far this year and highlight the ongoing insecurity throughout the country.⁸ The southern government so far has lacked the resources and capacity to deal with the rebels, the LRA, and to protect its civilians. During his inauguration on July 9, the new Republic of South Sudan's President Salva Kiir offered the five major rebel groups operating in South Sudan amnesty and called on them to help build the new country.

Potential Unrest in the North

Prior to the south's independence, oil revenue provided the Government of Sudan with 63% of its revenue. An estimated 85% of the oil that was located within pre-secession borders now sits within the new Republic of South Sudan, and the north stands to lose around 45% of its revenue absent a new wealth sharing agreement.⁹ The northern government is implementing austerity measures as it tries to find new sources of revenue to make up the loss, but high unemployment and rising food and fuel prices have created conditions ripe for unrest. There have already been a several small protests by students and farmers, though these have been quickly broken up by security services.

Darfur

The conflict in Darfur continues. In 2003, as the Government of Sudan was negotiating an end to the 22 year civil war between Sudan's north and south, attacks in Darfur were beginning. Between 2003 and

2005, an estimated 300,000 people lost their lives due to the Darfur conflict, which is separate and distinct from the issue of southern secession. About 2.5 million remain displaced by the conflict and face a dire humanitarian situation.

Renewed aerial attacks and fighting between government troops and rebel groups in Darfur have displaced at least 115,000 Darfuris since December 2010, and violence increased this spring.¹⁰ Sudan Armed Forces conducted multiple airstrikes on villages in Darfur as recently as in July.¹¹

Related CRN Engagement

Last fall, Conflict Risk Network conducted engagement efforts with a number of major oil and gas companies regarding conflict risks associated with the January 2011 referendum on southern secession. CRN recently engaged in talks with Total SA regarding the implications of secession for its operations in South Sudan. Currently, CRN is focusing its efforts on the three largest foreign oil companies operating in Sudan: China National Petroleum Corporation, India's Oil and Natural Gas Corporation, and Malaysia-based Petronas. For information on the results of these efforts please contact CRN's Director, Melany Grout (grout@genocideintervention.net) or CRN Analyst, Dave Kienzler (kienzler@genocideintervention.net).

About Conflict Risk Network

Conflict Risk Network (CRN) is a network of institutional investors, financial service providers and related stakeholders calling on corporate actors to fulfill their responsibility to respect human rights and to take steps that support peace and stability in areas affected by genocide and mass atrocities. Our goal is to increase such behavior by corporate actors, and thereby reduce conflict risk.

CRN is a project of Genocide Intervention Network / Save Darfur Coalition (GI-NET/SDC), a non-profit organization that seeks to empower individuals, communities and other actors with the tools to prevent and stop genocide and mass atrocities. In support of GI-NET/SDC's overall mission, CRN acts as an intermediary between the business and investment communities, engaging companies operating in GI-NET/SDC's Areas of Concern, including Sudan. By coordinating and conducting our engagement on behalf of a network of institutional investors, we harness the collective weight of trillions in assets when encouraging corporate behavior that reduces conflict risk.

¹ Magdi Mofadal, "Sudan: Referendum Results is a New Dawn," Nairobi Star, March 7, 2011, at <http://allafrica.com/stories/201103080193.html>.

² "Abyei a 'flashpoint'," United Press International, March 18, 2011, at http://www.upi.com/Top_News/Special/2011/03/18/Abyei-a-flashpoint-in-Sudan/UPI-82031300458548/.

³ "Sudan Abyei Crisis Situation Report No. 13," United Nations Office for the Coordination of Humanitarian Affairs, June 16, 2011, at <http://reliefweb.int/sites/reliefweb.int/files/resources/OCHA%20Situation%20Report%20%2313%20on%20Abyei%20Crisis%2016%20June%2011.pdf>.

⁴ "Q+A-North Sudan army takes control of Abyei region," Reuters Africa, May 24, 2011, at <http://af.reuters.com/article/sudanNews/idAFLDE74NORR20110524?pageNumber=1&virtualBrandChannel=0>.

⁵ Maram Mazen, "Ethiopian Peacekeepers Arrive in Sudan's Disputed Border Region of Abyei," Bloomberg News, July 19, 2011, at <http://www.bloomberg.com/news/2011-07-19/ethiopian-peacekeepers-arrive-in-sudan-s-disputed-border-region-of-abyei.html>.

⁶ Jeffrey Gettleman, "U.N. Officials Warn of a Growing 'Panic' in Central Sudan as Violence Spreads," New York Times, June 15, 2011, at <http://www.nytimes.com/2011/06/16/world/africa/16sudan.html?pagewanted=all>.

⁷ "South Kordofan Situation Report No. 15," United Nations Office for the Coordination of Humanitarian Affairs, August 25, 2011, at <http://reliefweb.int/sites/reliefweb.int/files/resources/OCHA%20South%20Kordofan%20situation%20report%20no%2015.pdf>.

⁸ "South Sudan rebel militia raid kills 29, army says," Reuters Africa, June 14, 2011, at <http://www.trust.org/alertnet/news/south-sudan-rebel-militia-raid-kills-29-army-says/>.

⁹ Maram Mazen, "Sudan Braces for Protests, Violence as Oil-Rich South Secedes," Bloomberg News, July 7, 2011, at <http://www.bloomberg.com/news/2011-07-07/sudan-braces-for-protests-violence-as-oil-rich-south-secedes.html>.

¹⁰ "Sudan jets bomb Darfur village, says UN," BBC News Africa, May 18, 2011, at <http://www.bbc.co.uk/news/world-africa-13446911>; "Briefings and Statements: 24 Dec 10 – Update on security situation," UNAMID website, December 24, 2010, at <http://unamid.unmissions.org/Default.aspx?tabid=900&ctl=Details&mid=1073&ItemID=11751>; "Sudan Weekly Humanitarian Bulletin 11-17 March 2011," United Nations Office for the Coordination of Humanitarian Affairs, March 17, 2011, at [http://www.reliefweb.int/rw/RWFiles2011.nsf/FilesByRWDocUnidFilename/MUMA-8F72NM-full_report.pdf/\\$File/full_report.pdf](http://www.reliefweb.int/rw/RWFiles2011.nsf/FilesByRWDocUnidFilename/MUMA-8F72NM-full_report.pdf/$File/full_report.pdf); and "Sudan Weekly Humanitarian Bulletin 24 -30 June 2011," United Nations Office for the Coordination of Humanitarian Affairs, June 30, 2011, at <http://reliefweb.int/sites/reliefweb.int/files/resources/OCHA%20Sudan%20Weekly%20Humanitarian%20Bulletin%2024%20-%2030%20June%202011%20%281%29.pdf>.

¹¹ "Witnesses: Sudan Armed Forces resumed bombing Darfur," Reliefweb, July 15, 2011, at <http://reliefweb.int/node/426071>.