

September 28, 2015

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

Dear Mr. Marshall and Ms. Boal:

Enclosed is the Iowa Public Employees' Retirement System's report for the fiscal year ended June 30, 2015, 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 as well as an update on the current situation in Sudan. The report also includes a list of prohibited companies as of June 30, 2015.

Sincerely,

A handwritten signature in black ink, appearing to read "Donna M. Mueller".

Donna M. Mueller
Chief Executive Officer

Enclosure

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
ANNUAL REPORT
ON SUDAN DIVESTMENT
For the Fiscal Year Ended June 30, 2015

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 EIRIS 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. It merged with EIRIS, a London organization, in 2013. IPERS considers companies characterized by the EIRIS - CRN 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 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 2015 Engagement Activity

The following chart summarizes the numbers of companies contacted by IPERS in fiscal year 2015 pursuant to chapter 12F.

Time Period	Number
Sept. 30, 2014	5
Dec. 31, 2014	8
Mar. 31, 2015	1
June 30, 2015	3

In total, letters were sent to seventeen companies under scrutiny for active business operations. Eight responses were received to these letters in fiscal year 2015. IPERS updates and publishes its prohibited companies list on a quarterly basis. During fiscal year 2015, nine companies were added to the prohibited companies list, and eighteen companies were removed. The companies were removed because the CRN no longer considered them to be "Scrutinized". IPERS' prohibited companies list as of June 30, 2015 is included as Appendix A to this report.

In addition, IPERS staff sent annual reminder letters to the companies that are on the list in Appendix A, 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 four companies to the annual letters that were sent in 2014. None of those letters provided new information that forced reconsideration.

Fiscal Year 2015 Divestment Activity

There was only one company on our prohibited list that was held directly by IPERS at June 30, 2014. This security was held in our account prior to the finalization of the Glencore - Xstrata merger on May 3, 2013. In our view, it became a prohibited security on that date. We had given the manager holding these securities until November 3, 2014 to divest from these securities. These bonds were subsequently sold by October 29, 2014.

Also, IPERS had direct holdings of Volkswagen AG when it became a prohibited security on December 31, 2014. At that time IPERS held no direct stock, but owned eight bonds worth \$6,541,081.87. Two bonds were sold in the first quarter of 2015 and another in the second quarter for a total gain to the system of \$8,371.88. As of June 30, 2015 IPERS' total direct holdings in Volkswagen AG bonds was \$4,113,858.30.

Indirect Holdings

As noted earlier, chapter 12F makes a distinction between direct and indirect holdings. IPERS' had indirect holdings in six companies listed on the prohibited companies list on June 30, 2015 that were valued at \$14,727,902.40, which was approximately 0.05% 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.

IPERS investment staff collected information concerning the potential cost of moving its indirect holdings to Sudan-free alternatives and presented such information to the IPERS Investment Board at its June 21, 2012 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.

Fiscal Year 2015 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 paid EIRIS-CRN only \$2,500 to provide its research services in fiscal year 2015.

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 or by telephone at 515-281-0030.

Appendix A

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

July 1, 2015

Divestment Date *

» AKM Industrial Co. Ltd.	
» Alstom	
» Alstom India Ltd.	
» Alstom T&D India Ltd	
» Andritz AG	June 30, 2015
» ASEC Company for Mining (ASCOM)	September 30, 2016
» Bharat Electronics Limited	June 30, 2015
» Bharat Heavy Electricals Limited	June 30, 2015
» Chennai Petroleum Corporation Ltd. (CPCL)	
» China Gezhouba Group Company Limited	
» China Hydraulic and Hydroelectric Construction Group Corporation (Sinohydro)	
» China National Petroleum Corporation (CNPC)	
» China North Industries Group Corporation (CNGC/NORINCO)	
» China Poly Group Corporation	December 31, 2016
» CNPC General Capital Limited	
» CNPC HK Overseas Capital Ltd.	
» Daqing Huake Group Co. Ltd.	
» Dongfeng Motor Group Co. Ltd. (DFL)	
» Egyptian Kuwaiti Holding Company	
» Eneos Globe Company	
» Engen Botswana Ltd.	June 30, 2015
» Gas District Cooling PutraJaya Sdn Bhd	
» GAZ Auto Plant	June 30, 2015
» GAZ Group	June 30, 2015
» Glencore Canada Corp.	
» Glencore Canada Financial Corp.	
» Glencore Finance Canada Ltd.	
» Glencore Finance Dubai Ltd.	
» Glencore Finance Europe SA	
» Glencore Funding LLC	
» Glencore PLC	
» Harbin Electric Company Ltd.	June 30, 2015
» Indian Oil Corporation Ltd. (IOCL)	
» Jiangxi Hongdu Aviation Industry Co. Ltd. (Hongdu Aviation)	
» Jinan Diesel Engine Co. Ltd	
» JX Holdings Inc.	
» Kingdream PLC	
» KLCCP Stapled Group	
» KMCOB Capital Berhad	
» Kunlun Energy Co. Ltd.	
» Lanka IOC PLC	
» LS Industrial Systems	
» Malaysia Marine and Heavy Engineering Holdings Bhd	June 30, 2015
» Man SE	September 30, 2015

Appendix A

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July 1, 2015

» Managem	
» Mangalore Refinery and Petrochemicals Ltd. (MRPL)	
» MISC Berhad (Malaysia International Shipping Company)	
» Network 18 Media & Investments Ltd.	March 31, 2016
» Nippo Corporation	
» NORINCO International Cooperation Ltd.	
» North Huajin Chemical Industries Co. Ltd.	
» North Navigation Control Technology Co. Ltd.	
» Oil and Natural Gas Corporation Ltd. (ONGC)	
» Oil India Ltd.	
» ONA S.A.	
» ONGC Videsh Limited (OVL)	
» Orca Gold Inc.	
» Pavlovsky Bus Plant	June 30, 2015
» Pertamina Persero PT	
» PetroChina Co. Ltd.	
» Petroliam Nasional Berhad (Petronas)	
» Petronas Capital Ltd.	
» Petronas Chemicals Group Berhad	
» Petronas Dagangan Bhd	
» Petronas Gas Bhd	
» Poly Energies Holding Co. Ltd.	December 31, 2016
» Poly Property Group Co. Ltd.	December 31, 2016
» Power Construction Corporation of China Ltd.	
» PowerChina Hydropower Development Group Ltd.	
» Putrajaya Holdings Sdn Bhd	
» Reliance Holdings USA Inc.	
» Reliance Industries Ltd.	
» Reliance Jio Infocomm Ltd.	
» Renk AG	September 30, 2015
» Scomi Energy Services Bhd	June 30, 2015
» Scomi Engineering Berhad	
» Scomi Group Berhad	
» Sichuan Nitrocell Co. Ltd.	
» Sinohydro Bureau 7 Co. Ltd.	
» Sinohydro Engineering Bureau 8 Co. Ltd.	June 30, 2015
» Sinopec Capital 2013 Ltd.	
» Sinopec Corporation (China Petroleum and Chemical Corporation)	
» Sinopec Engineering Group Co. Ltd.	June 30, 2015
» Sinopec Group (China Petrochemical Corporation)	
» Sinopec Group Overseas Development 2012 Ltd.	
» Sinopec Group Overseas Development 2013 Ltd.	June 30, 2015
» Sinopec Kanton Holdings Ltd.	
» Sinopec Shanghai Petrochemicals Ltd.	
» Sinopec Yizheng Chemical Fibre Co. Ltd.	

Appendix A

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July 1, 2015

» Societe Metallurgique D'imiter	
» Statesman Resources Limited	
» The Energy House Holding Co. K.S.C.C.	
» Toho Titanium Co.	June 30, 2015
» Trafigura Beheer	
» TV18 Broadcast Ltd.	March 31, 2016
» Viterro Inc.	
» Volkswagen AG	March 31, 2016

» 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.