

Kim Reynolds
GOVERNOR

Adam Gregg
LT. GOVERNOR



Donna M. Mueller
CHIEF EXECUTIVE OFFICER

September 29, 2017

Honorable W. Charles Smithson,
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. Smithson and Ms. Boal:

Enclosed is the Iowa Public Employees' Retirement System's report for the fiscal year ended June 30, 2017, on divestment activities regarding companies boycotting Israel. This annual report is required by Iowa Code section 12J.5.

The report describes IPERS' implementation of the divestment program regarding companies boycotting Israel and provides information on IPERS divestment activities and costs.

Sincerely,

A handwritten signature in blue ink that reads "Donna M. Mueller".

Donna M. Mueller
Chief Executive Officer

Enclosure

**IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
ANNUAL REPORT
ON COMPANIES THAT BOYCOTT ISRAEL DIVESTMENT
For the Fiscal Year Ended June 30, 2017**

Iowa Code chapter 12J requires the Iowa Public Employees' Retirement System (IPERS) to scrutinize companies that may be boycotting Israel, and under certain circumstances, to restrict its purchases of, and/or divest of, holdings of any company determined to be boycotting Israel. Chapter 12J specifies certain procedures to be followed in engaging companies that may be boycotting Israel, and requires IPERS to annually report to the General Assembly on its activities concerning the divestment law concerning companies that boycott Israel.

Implementation

IPERS conducted a competitive selection process for a research provider in 2016-17. Only a few providers submitted proposals to the initial RFP and none of the candidates would accept our legal terms included as minimum requirements in the RFP. The RFP was re-issued to soften the requirements and to request cost proposals for a "bundled" program, where the provider would provide research services for all three divestment programs (Sudan, Iran and Companies that Boycott Israel).

IW Financial (IWF), a subsidiary of ISS-Ethix, was ultimately selected to provide research services for all three divestment programs at a significant cost savings to IPERS and the other public entities subject to the divestment laws. However, the re-issuance of the RFP and the lengthy legal negotiations that followed resulted in IPERS missing the March 1, 2017 implementation date specified in Chapter 12J. IPERS issued its initial companies list on August 10, 2017, and has begun the engagement process with several companies as of the date of this letter.

IPERS sends a letter to each company with active business operations asking them to discontinue their boycott of Israel. Companies are given the opportunity to provide evidence that contradicts IWF'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, IPERS will place 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.

Chapter 12J 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.

Fiscal Year 2017 Engagement Activity

Due to the previously described delays in selecting a research provider, no engagement activity occurred in fiscal year 2017. Engagement activities began in August 2017.

Fiscal Year 2017 Divestment Activity

Due to the previously described delays in selecting a research provider, no divestment activity occurred in fiscal year 2017.

Holdings

Due to the previously described delays in selecting a research provider, there was no list of scrutinized or prohibited companies, and therefore no direct or indirect holdings to report as of June 30, 2017.

Fiscal Year 2017 Program Costs

There were no direct costs associated with implementing the 12J divestment program in fiscal year 2017. Staff costs were borne by IPERS and the Attorney General. As described earlier, IW Financial, a subsidiary of ISS-Ethix, will provide research services to IPERS for all three divestment programs at a significant cost savings in the future.

For More Information

¹ It is important to note that chapter 12J 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 12J. IPERS is required to analyze the prudence of moving its indirect holdings to commingled funds that do not contain companies that boycott Israel if such an option exists.

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.