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 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, 2017.

Sincerely,

[Signature]
Donna M. Mueller
Chief Executive Officer

Enclosure
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 the EIRIS Conflict Resolution Network (CRN) in fiscal year 2017. 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 2017 Engagement Activity

The following chart summarizes the numbers of companies contacted by IPERS in fiscal year 2017 pursuant to chapter 12F.

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sept. 30, 2016</td>
<td>9</td>
</tr>
<tr>
<td>Dec. 31, 2016</td>
<td>5</td>
</tr>
<tr>
<td>Mar. 31, 2017</td>
<td>0</td>
</tr>
<tr>
<td>June 30, 2017</td>
<td>7</td>
</tr>
</tbody>
</table>

In total, letters were sent to twenty-one companies under scrutiny for active business operations. Only one response was received to these letters in fiscal year 2017. IPERS updates and publishes its prohibited companies list on a quarterly basis. During fiscal year 2017, thirty-five companies were added to the prohibited companies list, and ten companies were removed. The companies were removed because EIRIS-CRN no longer considered them to be “Scrutinized”. IPERS' prohibited companies list as of June 30, 2017 is included as Appendix A to this report.

In addition, IPERS staff sent annual reminder letters to the thirteen companies that are on IPERS prohibited list on August 11, 2017, 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 two companies to the annual letters that were sent in 2016. None of those letters provided new information that forced reconsideration.
Fiscal Year 2017 Divestment Activity

IPERS had direct holdings of China Three Gorges Corporation of $4,311,645.50 when it became a prohibited security on January 1, 2017. By March 31, 2017, about half of that position was sold, leaving $2,161,488.40. Subsequently, that security came off the prohibited list on August 11, 2017.

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, 2017 that were valued at $4,050,154.68, which was less than 0.02% 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 2017 Program Costs

The cost to implement the Sudan monitoring and divestment program has been very low so far. IPERS paid EIRIS-CRN $2,500 to provide its research services in fiscal year 2017, and IPERS did not pay any staff overtime costs in implementing the Sudan divestment program in fiscal year 2017.

In 2016-17, IPERS conducted a competitive selection process for a research provider for the Sudan, Iran and anti-BDS Israel divestment programs. The selected provider, IW Financial, a subsidiary of ISS-Ethix, will provide research to IPERS for all three divestment programs for $5,000.00 per year beginning in fiscal year 2018 - a significant cost savings.

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, 2017

» Andritz AG
» Atlas Copco AB
» Bharat Electronics Limited
» Bharat Heavy Electricals Limited
» Chennai Petroleum Corporation Ltd. (CPCL)
» China Gezhouba Group Company Limited
» China National Petroleum Corporation (CNPC)
» China North Industries Group Corporation (CNGC/NORINCO)
» China Poly Group Corporation
» China Three Gorges Corporation
» China Three Gorges New Energy Corp
» CNPC General Capital Limited
» CNPC HK Overseas Capital Ltd.
» Daqing Huake Group Co. Ltd.
» Dianjian Haixing Ltd.
» Dongfeng Motor Group Co. Ltd. (DFL)
» Egypt Kuwait Holding Company
» Engen Botswana Ltd.
» ENGIE
» ENGIE Romania SA
» Gas District Cooling Putrajaya Sdn Bhd
» GAZ PJSC
» Glencore Australia Holdings Pty Ltd
» 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.
» Hubei Energy Group Co. Ltd.
» Hubei Qingjiang Hydropower Development Co.
» HydroChina Corp
» Indian Oil Corporation Ltd. (IOCL)
» Jiangxi Hongdu Aviation Industry Co. Ltd. (Hongdu Aviation)
» Kamaz PJSC
» KLCCP Stapled Group
» Kunlun Energy Co. Ltd.
» Kuwait Finance House
» Lanka IOC PLC
» LS Industrial Systems
» Malaysia Marine and Heavy Engineering Holdings Bhd

Divestment Date *

June 30, 2018
March 31, 2018
March 31, 2018
December 31, 2017
December 31, 2017
March 31, 2018
March 31, 2018
March 31, 2018
June 30, 2018
December 31, 2017
Appendix A

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

» Man SE
» Managem
» Mangalore Refinery and Petrochemicals Ltd. (MRPL)
» MISC Berhad (Malaysia International Shipping Company)
» Neftekamsky Avtozavod (NEFAZ)
» NORINCO International Cooperation Ltd.
» North Huajin Chemical Industries Co. Ltd.
» North Lingyun Industrial Group Co Ltd
» North Navigation Control Technology Co. Ltd.
» Oil and Natural Gas Corporation Ltd. (ONGC)
» Oil India Ltd.
» ONGC Videsh Limited (OVL)
» ONGC Videsh Vankorneft
» Orca Gold Inc.
» Parisienne Chauffage Urbain
» Pavlovo Bus PJSC
» Pertamina Persero PT
» PetroChina Co. Ltd.
» Petrolam Nasional Berhad (Petronas)
» Petronas Capitali Ltd.
» Petronas Chemicals Group Berhad
» Petronas Dagangan Bhd
» Petronas Gas Bhd
» Petronas Global Sukuk Ltd.
» Poly Energies Holding Co. Ltd.
» Poly Permanent Union Holding Group Ltd.
» Poly Property Group Co. Ltd.
» Power Construction Corporation of China (PowerChina)
» Power Construction Corporation of China Ltd.
» PowerChina Hydropower Development Group Ltd.
» PowerChina Real Estate
» Putrajaya Holdings Sdn Bhd
» Renk AG
» SepcoIII Electric Power Construction Corp
» Shanghai Elc Grp Glb Inv
» Shanghai Electric Group Co. Ltd.
» Shanghai Electric Group Corp.
» Shanghai Electric Newage
» Shanghai Mechanical and Electrical Industry Co. Ltd.
» Sinohydo 11 Bure Co.
» Sinohydo 8 Bureau Co.
» Sinohydo Bureau 14
» Sinohydo Bureau 4
» Sinohydo Bureau 7
» Sinohydo Tianjin

March 31, 2018
March 31, 2018
December 31, 2017
June 30, 2018
June 30, 2018
December 31, 2017
December 31, 2017
December 31, 2017
December 31, 2017
December 31, 2017
December 31, 2017
December 31, 2017
December 31, 2017
December 31, 2017
December 31, 2017
December 31, 2017

Appendix A

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

» Sinopec Capital 2013 Ltd.
» Sinopec Corporation (China Petroleum and Chemical Corporation)
» Sinopec Engineering Group Co. Ltd.
» Sinopec Group (China Petrochemical Corporation)
» Sinopec Group Overseas Development 2012 Ltd.
» Sinopec Group Overseas Development 2013 Ltd.
» Sinopec Group Overseas Development 2014 Ltd.
» Sinopec Group Overseas Development 2015 Ltd.
» Sinopec Group Overseas Development 2016 Ltd. December 31, 2017
» Sinopec Kanton Holdings Ltd.
» Sinopec Oilfield Equipment
» Sinopec Oilfield Service Corp.
» Sinopec Shanghai Petrochemicals Ltd.
» Societe Metallurgique D'imiter
» Societe Nationale d'Investissement (SNI) S.A.
» The Energy House Holding Co. K.S.C.C.
» Three Gorges Finance I Cayman Islands Ltd. March 31, 2018
» Three Gorges Finance II Cayman Islands Ltd. March 31, 2018
» Trafigura Beheer BV
» Trafigura Funding SA December 31, 2017
» Trafigura Group Pte. Ltd. December 31, 2017
» Viterra Inc.
» Volkswagen AG

» 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.