Chester J. Culver
GOVERNOR
Patty Judge
LT. GOVERNOR

IPERS

Donna M. Mueller
CHIEF EXECUTIVE OFFICER

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SENATE
State of Iowa

September 22, 2008

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, 2008, 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 in its initial year, and provides information on divestment activities and costs. The report also includes a list of prohibited companies as of June 30, 2008.

Sincerely,

Donna M Mueller

Donna M. Mueller
Chief Executive Officer

Enclosure

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IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
ANNUAL REPORT
ON SUDAN DIVESTMENT
For the Fiscal Year Ended June 30, 2008

Iowa Code chapter 12F, which became law on July 1, 2007, 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 by relying solely on the research and findings of the Sudan Divestment Task Force (the "Task Force"), the 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 Task Force 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 Task Forces' 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 holdings[1] 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 the Task Force to determine which companies have inactive business operations in the Sudan.

Fiscal Year 2008 Engagement Activity

The following chart summarizes the numbers of companies contacted by IPERS in fiscal year 2008 pursuant to chapter 12F.

Date Letters Sent	Number
July 1, 2007	45
September, 14, 2007	5
December 21, 2007	2
March 2008	1
June 25, 2008	3

In total, letters were sent to 55 companies under scrutiny for active business operations and 1 company deemed to have inactive business operations. IPERS received responses from only 11 companies, and none of them offered credible evidence to refute the Task Force's findings. Several companies indicated that they were working to address IPERS' concerns.

IPERS published its initial prohibited companies list on October 1, 2007, and updates to the list have been made every quarter as the Task Force updated its Highest Offender list. During fiscal year 2008, 11 companies were added to the prohibited companies list, and 4 companies were removed. The companies were removed because the Task Force removed them from its Highest Offender list. IPERS' prohibited companies list as of June 30, 2008 is included as Appendix A to this report.

Fiscal Year 2008 Divestment Activity

IPERS held direct holdings in only two of the companies placed on the prohibited companies list during fiscal year 2008. The investment manager has begun selling the securities, but continues to hold shares in those two companies valued at $4,148,000 as of June 30, 2008. The positions in both companies should be completely divested by December 31, 2008. The table below provides information concerning the holdings in these companies and the change in the number of shares held over the course of the fiscal year.

Company	Shares Held October 1, 2007	Shares held June 30, 2008	Change
MISC Berhad (Malaysia Intl. Shipping Co.)	555,400	403,600	-151,800
PetroChina	4,658,000	2,410,000	-2,248,000

Indirect Holdings

As noted earlier, chapter 12F makes a distinction between direct and indirect holdings. 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 in Fall 2007 and presented such information to the IPERS Investment Board at its December 6, 2007 meeting. The analysis indicated that it would cost an estimated $480,900 in transaction costs to move $700 million in commingled fund assets to a Sudan-free alternative fund in order to eliminate $1.3 million in exposure to prohibited companies. The Investment Board agreed with staff that it would not be prudent to incur such costs to eliminate such a small exposure to prohibited companies, and voted to maintain the investment in the existing commingled fund.

Fiscal Year 2008 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 public information made available by the Task Force. IPERS did incur $51,680 in fees and commission costs from the partial divestment of the direct holdings in the prohibited securities described earlier in this report.

Conclusion

The impact that the law has had on the situation in the Sudan is unknown. IPERS cannot point to any definitive study or conclusive research that indicates that conditions in the Sudan have improved, or that a change in the political regime in the Sudan is imminent. However, we can say that the Sudan divestment law has been implemented by IPERS at relatively little cost to the System so far.

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.