

Kim Reynolds
GOVERNOR

Adam Gregg
LT. GOVERNOR



Donna M. Mueller
CHIEF EXECUTIVE OFFICER

September 27, 2018

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, 2018, 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. The report also includes a list of prohibited companies as of June 30, 2018.

Sincerely,

A handwritten signature in black ink that reads "Donna M. Mueller". The signature is written in a cursive style.

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, 2018**

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 requires IPERS to annually report to the General Assembly on its activities concerning companies that boycott Israel.

Implementation

IPERS utilizes the services of ISS-Ethix to search for companies that meet the criteria of chapter 12J. If a company is identified by ISS-Ethix as meeting the criteria, IPERS sends a letter to the company asking them to discontinue their boycott of Israel. Companies are given the opportunity to provide evidence that contradicts ISS-Ethix' 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 2018 Engagement Activity

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.

Letters were sent to three scrutinized companies in fiscal year 2018. Only two companies responded to those letters. During fiscal year 2018, three companies were added to the prohibited companies list, and two companies were removed. The companies were removed because the companies provided information that IPERS believes indicates the companies are not boycotting Israel. IPERS' prohibited companies list as of June 30, 2018 is included as Appendix A to this report.

IPERS staff sent an annual reminder letter to the one company on IPERS prohibited list on August 17, 2018, encouraging them to transform their active Sudan operations into inactive operations. Chapter 12J requires this annual communication with each company on the prohibited companies list.

Fiscal Year 2018 Divestment Activity

No divestment activity occurred in fiscal year 2018 due to the fact that IPERS had no direct holdings in prohibited securities.

Holdings

As noted earlier, chapter 12J makes a distinction between direct and indirect holdings. IPERS' had indirect holdings in one company listed on the prohibited companies list on June 30, 2018 that were valued at \$1,424,723.61, which was less than 0.004% 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 12J, if it is prudent to do so. IPERS does not believe it is prudent to expend trading costs to move to a different commingled fund just to eliminate exposure to one small position. Staff will continue to monitor.

Fiscal Year 2018 Program Costs

IPERS incurred third party costs of \$1,666.00 for research services in fiscal year 2018 for this divestment program.

For More Information

See IPERS' Web site at <https://www.ipers.org/about-us/investments/restrictions-regarding-companies-boycotting-israel> for quarterly updates throughout the year. We can be reached by e-mail at investments@ipers.org or by telephone at 515-281-0030.

Exhibit A

Iowa Public Employees' Retirement System's Companies that Boycott Israel Prohibited Companies List

May 11, 2018

» DNB ASA

Divestment Date *
November 11, 2019

* Denotes deadline for divesting of security.