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MEMORANDUM

DATE: August 17, 2010
TO: OPERS Board Members
FROM: Deanne Rau, Portfolio Manager - External Public Markets
RE: **Iran and Sudan Divestment Update**

Purpose

This memo provides a six month progress report on the Iran and Sudan Divestment Policy (Policy). This is the seventh report since the implementation of the Policy. It provides an overview of the company screening criteria, the list of scrutinized companies and updates on engagement initiatives and divestment activity.

Background

In September 2007, the OPERS Iran and Sudan Divestment Policy was approved. Key features of the Policy include the following:

- Applies to public stocks and bonds in the Non-U.S. Equity and Fixed Income asset classes that are actively managed through separate accounts within the Defined Benefit and the Health Care Funds.
- Is consistent with fiduciary duties.
- Establishes a goal of reducing investment exposure to companies with ties to Iran and Sudan when comparable investments offering similar quality, return and safety are available.
- Requires staff to develop an Iran and Sudan Divestment Process to identify and engage companies with ties to Iran and/or Sudan. Staff is also required to report the company screening criteria, the list of scrutinized companies and summary risk and return impacts from divestment activity.

Staff created the Iran Sudan Divestment Committee (ISDC) to identify and engage companies. Current members of the ISDC include General Counsel, Director-External Relations, Portfolio Manager-External Public Markets, with other Staff members participating as required. Since December 31, 2007, ISDC has spent over 1073 hours on Iran Sudan Divestment work and meeting Policy requirements.

Scrutinized Companies

The OPERS ISDC Screening Criteria (shown as Attachment A) remains unchanged from the last update to the Investment Committee; and staff used RiskMetrics/ISS to help identify companies that meet the screening criteria. The OPERS Scrutinized Company List (List) is shown in Attachment B. This List, which went into effect on January 1, 2010, has been provided to all impacted external and internal investment managers. This version of the List remained in effect until July 1, 2010 when a new List was produced and provided to investment managers. Information on OPERS exposure to companies on the updated List will be provided at the February 2011 Investment Committee meeting.

Exposure to Scrutinized Companies

During the period of January 1, 2010 to June 30 2010, OPERS' exposure to scrutinized companies changed from 17 names representing approximately \$339 million in exposure to 20 names and approximately \$372 million in exposure. The increase in dollar exposure was primarily due to an increase in fixed income exposure, notably short-term commercial paper, to scrutinized names. The names on the List continued to be skewed towards the energy sector.

A listing of OPERS' exposure to scrutinized companies is provided in Attachment C. This listing provides the consolidated exposure to scrutinized names for both the OPERS Defined Benefit and Health Care Funds. For the scrutinized names that OPERS continues to own, the primary reason cited by investment managers was a lack of comparable securities offering similar quality, return and safety.

Engagement Update

OPERS' Iran and Sudan Divestment screening vendor, RiskMetrics/ISS, provided OPERS with a list of 96 companies that met OPERS' Iran and Sudan divestment screening criteria. On June 15, 2010, OPERS Corporate Governance Department sent letters to each identified company. When an identified company provides OPERS information about its business activities in Iran and/or Sudan, and the firm includes rationale why it believes the company did not meet OPERS' screening criteria, the information is forwarded to the screening vendor. The screening vendor then performs additional research to determine if the company merits continued inclusion on the List.

Since the beginning of the year, the Corporate Governance Department has also been in contact with other institutional investors and participated in a Council of Institutional Investors conference call regarding Iran and/or Sudan divestment issues.

Next Steps

Staff continues to administer the Policy and will provide another status report at the February 2011 Investment Committee.

Attachment A: OPERS Iran and Sudan Divestment Committee Screening Criteria

OPERS IRAN AND SUDAN DIVESTMENT COMMITTEE

SCREENING CRITERIA

1. Company:
 - (a) has business operations that involve contracts with or provision of supplies or services to:
 - (i) the government of Sudan;
 - (ii) companies in which the government of Sudan has any direct or indirect equity share;
 - (iii) consortiums or projects commissioned by the government of Sudan; **OR**
 - (iv) companies involved in consortiums or projects commissioned by the government of Sudan; **AND**
 - (b) either (i) or (ii) of the following:
 - (i) (A) More than 10% of its revenues or assets that are linked to Sudan oil-related activities or mineral extraction activities;
(B) Less than 75% of its revenues or assets that are linked to Sudan involve contracts with or provision of oil-related or mineral-extracting products or services to the regional government of southern Sudan or a project or consortium created exclusively by that regional government; **AND**
(C) The company has failed to take substantial action specific to Sudan; **OR**
 - (ii) (A) More than 10% of its revenues or assets that are linked to Sudan involve power production facilities;
(B) Less than 75% of its power production activities include projects whose intent is to provide power or electricity to the marginalized populations of Sudan; **AND**
(C) The company has failed to take substantial action specific to Sudan; **OR**
2. Company is complicit in the Darfur genocide; **OR**
3. Company supplies military equipment within Sudan; **OR**
4. Company has
 - (a) has business operations that involve contracts with or provision of supplies or services to:
 - (i) the government of Iran;
 - (ii) companies in which the government of Iran has any direct or indirect equity share;
 - (iii) consortiums or projects commissioned by the government of Iran; **OR**

- (iv) companies involved in consortiums or projects commissioned by the government of Iran; **AND**
- (v) More than 10% of its revenues or assets that are linked to Iran oil-related activities, mineral extraction activities or petroleum resources.

The following definitions will be used for determining inclusion on the OPERS Iran and Sudan Divestment Committee Screening Criteria:

Military Equipment – the active business operation must be involved with the production, distribution, leasing, or supply of weapons, arms, military supplies or military equipment in Iran or Sudan; or in the supply of goods and services to any armed force actively participating in the conflict in Sudan.

Mineral Extraction – the active business operation must be involved in the exploration, extraction, transporting or wholesale selling or trading of elemental minerals or associated metal alloys oxides; or the facilitation of such operations through service and supply activities.

Oil Related Activities – the active business operation must be involved with owning rights to oil blocks, exporting, extracting, producing, refining, processing, exploring for, transporting, or trading of oil; or, constructing, maintaining, or operating a pipeline, refinery, or other oil-filed infrastructure; or facilitating such operations through service and supply activities.

Power Production Activities – the active business operation must be involved in any business operation that involves a project commissioned by the national electric corporation of Sudan or other similar entity of the government of Sudan, whose purpose is to facilitate power generation and delivery; or facilitating such operations through service and supply activities.

Substantial action-adopting, publicizing, and implementing a formal plan to cease scrutinized business operations within one year and to refrain from any such new business operations; undertaking significant humanitarian efforts in conjunction with an international organization, the government of Sudan, the regional government of southern Sudan, or a nonprofit entity evaluated and certified by an independent third party to be substantially in a relationship to the company's Sudan business operations and of benefit to one or more marginalized populations of Sudan; or through engagement with the government of Sudan, materially improving conditions for the genocidally victimized population in Darfur.

Complicit-taking actions during any preceding twenty-month period that directly support or promote the genocidal campaign in the Darfur region of Sudan, including, but not limited to, preventing members of the populations of the Darfur region of Sudan negatively affected by genocide from communicating with each other, encouraging Sudanese citizens to speak against the internationally approved security force that provides aide to the Darfur region; actively working to deny, cover up, or alter the record on human rights abused in Darfur; or other similar actions.

Attachment B: OPERS Scrutinized Company List

List of Scrutinized Companies:	January 1, 2010 to June 30, 2010
Alstom	Kunlun Energy Co. Ltd.
Aref Investment Group	La Mancha Resources, Inc.
Areva CI	Lanka IOC Plc
Areva T&D India Ltd	Linde AG
Arzamas Machine Building Plant	LS Industrial Systems Co. Ltd.
Atlas Copco (India) Ltd	Lukoil OAO
Atlas Copco AB	MAN SE
AviChina Industry & Technology Company Limited	Managem SA
Bharat Heavy Electricals, Ltd.	Mangalore Refinery & Petrochemicals Ltd
Cedec SA Luxembourg	Midciti Resources SDN BHD
Chennai Petroleum Corp Ltd	MISC Berhad
China Avic Avionics EquipmentCo, Ltd.	Mosenergo
China National Petroleum Corp.	NAM Fatt BHD
China North Industries Group Corporation	Norinco International Cooperation Ltd
China Petroleum & Chemical Corporation	Oil & Natural Gas Corp Ltd
CNOOC Ltd.	Oil India Limited
Daelim Industrial Co., Ltd.	OMV AG
Daqing Huake Group Co Ltd	OMV Petrom SA
DongFeng Automobile Co Ltd	PECD Bhd.
Dongfeng Motor Group Co Ltd	PetroChina Company Limited
Egypt Kuwait Holding Co. S.A.E.	Petrofac Limited
Electricity Generating PCL	Petroliam Nasional Bhd
Elf Aquitaine	Petronas Dagangan Bhd
Elnusa PT	Petronas Gas Berhad
Engineers India Limited	PTT Exploration & Production PCL
Eni SpA	Putrajaya Holdings Sdn Bhd
Finmeccanica SpA	Ranhill Bhd
GAIL (India) Limited	Revathi Equipment Ltd
GAZ Group	Royal Dutch Shell Plc
Gazprom Neft	Sasol Limited
Gazprom OAO	Scomi Engineering BHD
Groupe ONA SA	Scomi Group Bhd
GS E&C	Seadrill Ltd
GS Holdings Corp.	SINOHYDRO Corp
Hafei Aviation Industry Co Ltd	Sinopec Finance Co. Ltd.
Harbin Dongan Auto Engine Co	Sinopec Kantons Holdings Ltd
Harbin Power Equipment	Sinopec Shanghai Petrochemical Company Limited

Hyundai Engineering and Construction Co.	Sinopec Yizheng Chemical Fibre Co., Ltd.
Immobiliere Dassault SA	Smith International, Inc.
Indian Oil Corp Ltd	Snam Rete Gas S.p.A.
Intertek Group PLC	Statoil ASA
Jiangxi Hongdu Aviation Industry Corp Ltd	Sudan Telecommunications (Sudatel)
Kamaz	Technip
Kejuruteraan Samudra Timur Bhd	Total Nigeria Plc
KingDream PLC	Total S.A.
KMC Oiltools Bermuda Ltd	Wartsila Oyj
KMCOB Capital Bhd	Welspun-Gujarat Stahl Rohren Limited
Korea Plant Service & Engineering Co. Ltd.	Wuhan Boiler Co

Attachment C: Exposure to Scrutinized Companies
January 1, 2010 to June 30, 2010

Company Name	Shares 1/1/2010	Market Value 1/1/2010
Alstom	94,112	6,614,576
Atlas Copco	741,501	10,909,977
China Petroleum & Chemical Corp	9,584,000	8,539,709
CNPC Hong Kong	1,532,000	2,038,716
Dongfeng Motor Group	6,460,000	9,313,063
Electricity Generating PCL	310,100	733,251
ENI SpA	8,302,100	38,919,802
Finmeccanica SpA	35,900	575,512
Gazprom OAO	361,566	9,219,933
Linde AG	100,663	12,136,825
LUKOIL	303,196	17,373,131
PetroChina Co Ltd	3,228,000	3,879,427
Petroleo Brasileiro SA	2,512,428	92,260,421
Royal Dutch Shell	2,368,631	71,100,008
StatoilHydro ASA	630,420	15,755,264
Total SA	432,410	27,879,565
TOTAL	36,997,027	327,249,180.00
Alcatel-Lucent (Fixed Income)		283,750.00
Gazprom Capital (Fixed Income)		1,470,300.00
Petroleo Brasileiro SA (Fixed Income)		9,689,000.00
GRAND TOTAL	36,997,027	338,692,230.00
NUMBER OF COMPANIES	17	

Company Name	Shares 6/30/2010	Market Value 6/30/2010
Atlas Copco	482,610	7,118,233
China Petroleum & Chemical Corp	11,414,000	9,305,887
CNOOC Ltd	26,525,000	45,567,760
Dongfeng Motor Group	9,222,000	10,869,610
Electricity Generating PCL	310,100	781,946
ENI SpA	1,676,834	31,148,619
Finmeccanica SpA	389,100	4,063,592
GAIL India, Ltd	96,772	965,310
Gazprom OAO	4,065,353	25,406,497
GS Holdings	17,210	540,894
Harbin Power Equipment	532,000	383,196
Linde AG	78,463	8,299,883
OMV AG	19,899	602,035
PetroChina Co Ltd	2,276,000	2,562,819
Royal Dutch Shell	2,458,635	61,610,699
Sinopec Shanghai Petrochemical Company	278,000	106,367
Smith International	361,711	13,618,419
Statoil ASA	639,592	12,418,118
Technip SA	135,000	7,858,355
Total SA	1,012,053	45,749,348
TOTAL	61,990,332	288,977,586.18
ENI- Commercial Paper		50,000,000
Gazprom Capital (Fixed Income)		2,735,657
Shell International (Fixed Income)		23,154,206
Smith International (Fixed Income)		6,784,883
GRAND TOTAL	61,990,332	371,652,332.05
NUMBER OF COMPANIES	20	