



---

**Ohio Public Employees Retirement System**

---

June 10, 2008

The Honorable Jon Husted, Speaker  
Ohio House of Representatives  
77 S. High Street, 14<sup>th</sup> Floor  
Columbus, Ohio 43215

Dear Speaker Husted:

The purpose of this letter is to provide you with additional information regarding the status of the Iran and Sudan Divestiture policy adopted by the OPERS Board in September 2007. This policy establishes guidelines for OPERS to follow when identifying, engaging or investing in companies with ties to Iran and Sudan.

The Iran and Sudan Divestment Policy requires OPERS staff to prepare quarterly reports for the OPERS Board updating them on progress made towards managing and implementing the policy. The first report was presented to the OPERS Investment Committee at its meeting on May 20, 2008 and covered the period from January 1, 2008 to March 31, 2008. A copy of the report is attached.

The policy applies to stock and bonds in the non-U.S. equity and global bonds asset classes that are actively managed through separate accounts within the OPERS defined benefit and health care funds. In order to implement the policy, any investment manager that managed a portfolio in one of these asset classes was notified of the policy.

The investment management agreements with the affected external investment managers were amended to require the managers to divest existing holdings of public stocks and bonds of scrutinized companies if comparable investments offering similar quality, return and safety are available as replacement holdings. In addition, these investment managers are prohibited from purchasing new holdings in any of these companies if comparable investments offering similar quality, return and safety are available. Similar restrictions are also placed on internally managed portfolios.

The OPERS Board and staff have spent a considerable amount of time and effort over the past year developing and implementing its Iran and Sudan Divestment Policy and Process. During this period our screening vendor initially identified 81 companies that are doing business in Iran and Sudan. The Corporate Governance Department sent letters to each company representative requesting information regarding their ties to the two countries. This engagement process will continue as the list of scrutinized companies is updated in 2008. Three companies were removed from the list due to merger or acquisitions, or a sale of business assets. Our final scrutinized company list included 79 companies.

The past 12 months have been a volatile time in the financial markets due in large part to the collapse of the sub prime mortgage business and its impact on the capital markets. In addition, the world economy has been impacted by the increase in the price of oil over the past year from \$65 per barrel to more than \$130 per barrel. Since approximately 80% of the scrutinized companies are in the energy sector, the increase in the price of oil has resulted in the energy sector outperforming the MSCI world market index on a relative basis.

The new policy requires each affected portfolio manager to make the divestment decision based on its own investment research as to whether a replacement company can be identified that offers similar quality, return, and safety. This will ensure that the System continues to meet its fiduciary responsibility to our members when making investment decisions.

While there was a net decrease in our holdings in scrutinized companies, it is too early to draw any conclusions about the impact of the new policy. OPERS will continue to implement the policy in 2008 and provide you with the quarterly reports after they are presented to the OPERS Board. The next update to the board is scheduled for August 2008. At that point, we expect to hear more from our investment managers on the progress they are making in finding comparable investments offering similar quality, return and safety. If you have any questions or need any additional information, please let me know.

Sincerely,



Chris DeRose  
CEO

cc: Representative Shannon Jones  
Representative Josh Mandel  
Aristotle Hutras

Attachments

OPERS	Quantity	Market Value	OPERS	Quantity	Market Value
Iran and Sudan Divestment Policy					
OCI DINGS ASSUMING BASE CA 46B					
OPERS Portfolio 6/30/2007			OPERS Portfolio 6/30/2007		
ACS Actividades de Construccion y Servicios SA	6,895	429,020.58	ACS Actividades de Construccion y Servicios SA	4,398	250,184.62
Aggreko Plc	153,611	1,772,756.34	Aggreko Plc	153,611	1,966,162.34
Alcatel-Lucent	3,443,788	48,407,936.72	Alcatel-Lucent	3,147,760	17,970,882.95
Astrom	484	83,100.05	Astrom	26,525	5,744,449.55
BG Group PLC	2,232,140	36,835,425.89	BG Group PLC	1,131,271	26,178,111.91
China Petroleum & Chemical Corp	12,944,000	14,321,514.46	China Petroleum & Chemical Corp	7,866,000	6,731,024.03
CNOOC Ltd	28,900,900	32,752,874.66	CNOOC Ltd	16,390,000	24,217,525.38
Dongfeng Motor Group Co Ltd	1,882,000	1,001,422.36	Cnrc Hong Kong Ltd	870,000	399,062.06
Electricity Generating PCL	290,000	1,050,170.35	Dongfeng Motor Group Co Ltd	256,000	115,122.70
ENI SpA	1,084,165	39,858,220.82	Electricity Generating PCL	123,000	375,453.09
GS Holdings Corp	893,557	37,016,558.80	ENI SpA	1,016,161	34,615,890.36
ITOCHU Corp	98,000	1,136,102.74	Gazprom OAO	677,648	44,321,224.00
JGC Corp	9,000	168,778.77	Inpex Holdings Inc	357	3,965,674.14
Linde AG	109,438	13,185,437.62	ITOCHU Corp	40,000	393,895.41
LUKOIL	394,336	30,004,078.20	Linde AG	34,663	4,892,151.39
Mitsubishi Heavy Industries Ltd	694,000	4,456,555.09	LUKOIL	164,080	13,087,593.60
Mitsui & Co Ltd	1,303,000	25,969,239.89	Mitsui & Co Ltd	1,156,000	23,368,725.84
Mitsui Engineering & Shipbuilding Co Ltd	679,000	3,632,607.83	Norsk Hydro ASA	480,300	6,988,653.36
Norsk Hydro ASA	506,850	19,605,686.85	Oil & Natural Gas Corp Ltd	97,420	2,383,523.18
Oil & Natural Gas Corp Ltd	80,340	1,780,804.20	OMV AG	32,728	2,160,617.67
PetroChina Co Ltd	2,544,000	3,748,641.80	PetroChina Co Ltd	3,443,970	4,545,491.05
Petrofac Ltd	152,716	1,377,423.79	Petrofac Ltd	98,758	1,091,916.36
Petroleo Brasileiro SA	578,017	56,861,263.92	Petroleo Brasileiro SA	827,944	74,519,250.72
Petronas Dagangan BHD	84,400	195,568.43	Petronas Dagangan BHD	84,400	211,827.45
Petronas Gas BHD	40,300	122,563.36	Reliance Industries Ltd	21,879	2,506,604.28
Reliance Industries Ltd	21,879	122,563.36	Ransol YPF SA	182,333	6,286,004.21
Ransol YPF SA	394,764	1,301,024.50	Rio Tinto PLC	381,510	39,587,444.77
Rio Tinto PLC	365,806	15,636,740.24	Rolls-Royce Group PLC	941,731	7,525,454.30
Rolls-Royce Group PLC	941,998	29,659,521.30	Royal Dutch Shell PLC	2,224,892	76,417,236.17
Royal Dutch Shell PLC	1,304,540	10,189,957.81	Sinopec Shanghai Petrochemical Co Ltd	2,612,000	895,416.68
Sasol Ltd	47,220	53,689,040.29	Sasol Ltd	170,460	8,148,769.39
Snam Rete Gas SpA	177,200	1,763,518.75	Statoil-Hydro ASA	890,070	26,336,689.75
Statoil-Hydro ASA	297,500	1,052,243.15	Technip SA	72,827	5,673,599.77
Technip SA	52,638	9,261,701.98	Total SA	690,352	51,214,994.82
Total SA	928,460	4,369,609.88			
BASF	99,842	75,766,135.40			
ABB Ltd	1,815,406	13,063,076.38			
Credit Agricole SA	377,836	41,314,957.87			
TOTAL	65,957,985.90	649,695,932.68	TOTAL	46,500,548	525,690,809.32
GAZ Capital SA (Fixed Income)		1,624,164.93	GAZ Capital SA (Fixed Income)		1,701,849.00
GRAND TOTAL	65,957,985.90	650,320,097.61	GRAND TOTAL	46,500,548	527,392,658.32
Change in Shares Owned Since 6/30/2007	19,457,437.90				
Change in Market Value Since 6/30/2007	\$ 122,927,439.29				
Percentage Change in Market Value Since 6/30/2007	-18.90%				

OPERS  
Iran and Sudan Divestment Policy

OPERS Positions 6/30/2007			OPERS Positions 3/31/2009		
Company Name	Quantity 6/30/2007	Market Value 6/30/2007	Quantity 3/31/2009	Market Value 3/31/2009	
ACS Actividades de Construccion y Servicios SA	6,696	429,020.58	4,398	250,184.62	
Aggreko Plc	153,611	1,772,756.34	153,611	1,966,162.34	
Alcatel-Lucent	3,443,788	48,407,936.72	3,147,760	17,970,862.95	
Aistom	494	83,100.05	26,525	5,744,449.55	
BG Group PLC	2,232,140	36,835,425.89	1,131,271	26,178,111.91	
China Petroleum & Chemical Corp	12,344,000	14,321,514.46	7,865,000	6,731,024.03	
CNOOC Ltd	28,900,900	32,752,874.66	16,390,000	24,217,525.38	
Dongfeng Motor Group Co Ltd	1,882,000	1,001,422.36	870,000	398,062.06	
Electricity Generating PCL	290,000	1,050,170.35	256,000	115,122.70	
ENI SpA	1,094,165	39,858,220.82	123,000	375,453.09	
Gazprom OAO	883,537	37,016,556.80	1,018,161	34,615,890.36	
GS Holdings Corp	8,550	415,550.71	877,648	44,321,224.00	
ITOCHU Corp	98,000	1,136,102.74	357	3,965,674.14	
JGC Corp	9,000	168,778.77	40,000	393,895.41	
Linde AG	109,438	13,185,437.62	34,863	4,892,151.39	
LUKOIL	394,336	30,004,078.20	164,080	13,687,553.60	
Mitsubishi Heavy Industries Ltd	684,000	4,496,555.09	1,156,000	23,368,725.84	
Mitsui & Co Ltd	1,303,000	25,969,239.89	480,300	6,988,853.38	
Mitsui Engineering & Shipbuilding Co Ltd	679,000	3,632,607.83	97,420	2,383,523.18	
Norsk Hydro ASA	506,850	19,605,696.85	32,728	2,160,617.67	
Oil & Natural Gas Comp Ltd	80,340	1,780,804.20	3,443,970	4,545,491.05	
PetroChina Co Ltd	2,544,000	3,748,641.60	98,158	1,091,916.36	
Petrofac Ltd	578,017	1,377,423.79	827,944	74,519,250.72	
Petroleo Brasileiro SA	84,400	56,861,283.92	84,400	211,827.45	
Petronas Dagangan BHD	40,300	185,568.43	21,879	2,506,604.28	
Petronas Gas BHD	40,300	122,563.36	182,333	6,286,004.21	
Reliance Industries Ltd	394,764	1,301,024.50	381,510	39,587,444.77	
Repsol YPF SA	385,806	15,636,740.24	941,731	7,525,454.30	
Rio Tinto PLC	941,998	29,659,521.30	2,224,892	76,417,258.17	
Rolls-Royce Group PLC	1,304,540	10,189,957.81	2,612,000	899,416.98	
Royal Dutch Shell PLC	47,220	53,669,040.29	170,460	8,148,769.39	
Sasol Ltd	177,200	1,783,518.75	880,070	26,336,689.75	
Snam Rete Gas SpA	297,500	1,052,243.19	72,927	5,673,599.77	
StatOilHydro ASA	52,638	9,261,701.98	690,352	51,214,984.82	
Technip SA	928,460.00	4,369,609.86			
Total SA	63,665,302.00	75,766,135.40			
TOTAL		578,878,897.37			
GAZ Capital SA (Fixed Income)		1,624,164.93			
GRAND TOTAL	63,665,302.00	580,503,062.30	46,500,548	525,690,809.32	
				1,701,849.00	
				527,392,658.32	

Change in Shares Owned Since 6/30/2007  
Change in Market Value Since 6/30/2007 \$ 53,110,403.98  
Percentage Change in Market Value Since 6/30/2007 -9.15%

**OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
277 EAST TOWN STREET COLUMBUS, OHIO 43215-4642  
1-800-222-PERS (7377)  
www.opers.org

**MEMORANDUM**

**Date:** May 7, 2008

**To:** OPERS Retirement Board Members  
Chris DeRose, Chief Executive Officer

**From:** Deanne Rau, Portfolio Manager - External Public Markets  
Julie Becker, General Counsel  
Carol Nolan Drake, Director - External Relations  
Tom Sherman, Government Relations Officer

**Cc:** Jennifer Hom, Director – Investments

**RE:** **Iran and Sudan Divestment Update**

---

**Purpose**

This memorandum provides a progress report on the Iran and Sudan Divestment Policy (“Policy”). This is the first quarterly report following the implementation of the Policy. It provides an overview of the company screening criteria, the list of scrutinized companies and summary risk and return information on divestment activity.

**Background**

In April 2007, House Bill ( HB ) 151 was introduced, which would have prohibited the retirement systems, the Treasurer, the Board of Deposit and the Bureau of Workers’ Compensation from investing in publicly traded companies with scrutinized business operations in Iran or Sudan; and required divestment of any existing investment in those companies.

After extensive deliberations, the Executive Directors of the five Ohio retirement systems committed to pursue a policy approach instead of legislation. Specifically, the Executive Directors agreed to work with their Retirement Boards to develop investment policies consistent with their boards’ fiduciary duties. The OPERS policy establishes the goal of reducing investment exposure to the potentially unique risks associated with investments in companies with actual ties to Iran and Sudan when comparable investments offering similar quality, return and safety are available.

While OPERS remains deeply concerned about the issues of terrorism and genocide, the Board passed the following motions during the June 2007 meeting:

1. OPERS is opposed to any mandatory divestiture of holdings in companies as provided in the current version of Substitute HB 151, or any similar legislation, as such mandatory divestment is inconsistent with the Board's fiduciary duties to its membership.
2. The Board directed staff to draft a policy addressing investments in companies doing business in the countries of Iran and Sudan and any other countries that might be involved in terrorist activities for the board's consideration.

During the July 2007 Investment Committee meeting, the scope of staff efforts was clarified to only address company ties to Iran and Sudan.

### **Policy**

Staff presented the Investment Committee with a draft Iran and Sudan Divestment Policy ( Policy ) and associated Iran and Sudan Divestment Process ( Pr ocess ) dur ing the August 2007 meeting. The Policy was approved during the September 2007 meeting. The Policy, shown as Attachment A, includes the following significant elements:

1. Applies to public stocks and bonds in the Non-U.S. Equity and Global Bonds asset classes that are actively managed through separate accounts within the Defined Benefit Fund and the Health Care Fund.
2. It is consistent with fiduciary duties.
3. It 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.
4. Staff is to identify and engage companies with ties to Iran and/or Sudan.
5. Staff will report the company screening criteria, scrutinized companies and summary risk and return impacts from the Policy.

### **Process**

Staff created the Iran and Sudan Divestment Process ( Process ) to implement the Policy. The Process is shown as Attachment B and includes the following significant elements:

1. Establishes the Iran Sudan Divestment Committee (ISDC) as an internal working group consisting of the General Counsel, Corporate Governance Manager and the Senior Investment Officer External Public Markets<sup>1</sup> with other staff members participating as required.
2. Establishes roles and responsibilities.
3. Establishes the role of a third party screening vendor to identify potential scrutinized companies.
4. Company screening criteria are established.
5. Preliminary scrutinized companies are identified and engaged.
6. Scrutinized companies are determined and approved by the Director-Investments.
7. Affected asset managers are notified of the scrutinized companies.
8. Reports are generated and communicated to the Investment Committee.

### **Scrutinized Companies**

RiskMetrics was engaged as the vendor to identify companies with ties to Iran and/or Sudan. The ISDC then established the screening criteria to be used by RiskMetrics to create a list of scrutinized companies. The screening criteria are shown as Attachment C.

The preliminary list identified 81 scrutinized companies. The OPERS Corporate Governance Department sent letters to each of the 81 companies in November 2007 seeking additional information regarding their potential ties to Iran and/or Sudan. Attachment D shows an example of an engagement letter. OPERS received 25 responses from companies on the list, with responses ranging from detailed information on the company's activity in Iran and/or Sudan to little or no acknowledgement of activity.

Due to the relatively low response rate to the first letter, Corporate Governance sent a second letter in January 2008. This letter reminded companies of OPERS' interest in understanding their Iran and/or Sudan business activity and if they had any information that would lead to their removal from OPERS scrutinized list. The companies were reminded that they would remain on OPERS scrutinized list if staff: 1) did not receive a

---

<sup>1</sup> These responsibilities are currently being assumed by the Portfolio Manager-External Public Markets.

response or 2) if the information received could not be verified by RiskMetrics. OPERS received 8 responses to its second letter.

The list of scrutinized companies is shown in Attachment E.

### Asset Managers and Divestment

The following table shows the managers within the scope of the Policy. The investment management agreements for each of these managers were amended to incorporate the provisions of the Policy.

Manager	Asset Class	Portfolio Market Value (12/31/2007)	Market Value of Scrutinized Companies (12/31/2007)
Acadian ACWI	Non U.S. Equity	\$713,951,680	\$42,211,791
Acadian- Non US Small Cap	Non U.S. Equity	\$579,159,203	\$2,698,686
Acadian-Emerging Market	Non U.S. Equity	\$250,090,870	\$23,138,845
AFL-CIO	Global Bonds	\$98,612,853	\$0
AllianceBernstein	Non U.S. Equity	\$1,554,200,527	\$219,075,107
Brandes	Non U.S. Equity	\$1,465,356,250	\$22,730,164
Capital Guardian	Global Bonds	\$247,243,917	\$1,869,264
Fort Washington	Global Bonds	\$109,902,722	\$0
Goldman Sachs	Global Bonds	\$193,271,547	\$0
Internal Core Bond	Global Bonds	\$9,538,825,085	\$0
JP Morgan	Non U.S. Equity	\$667,391,113	\$75,060,314
LSV	Non U.S. Equity	\$354,483,248	\$22,476,089
Post Advisory	Global Bonds	\$224,316,990	\$0
Pyramis	Global Bonds	\$351,094,843	\$0
QMA	Non U.S. Equity	\$290,716,950	\$20,472,280
Shenkman	Global Bonds	\$195,340,428	\$0
Smith Breeden	Global Bonds	\$352,403,301	\$0
Stone Harbor	Global Bonds	\$222,345,365	\$0
T Rowe Price	Non U.S. Equity	\$261,204,164	\$23,326,611
The Boston Company	Non U.S. Equity	\$314,512,473	\$41,172,950
TT International	Non U.S. Equity	\$697,253,400	\$61,743,255
Walter Scott & Partners	Non U.S. Equity	\$561,890,247	\$57,335,108

\*Unaudited

Attachment F shows the detailed transaction activity for the scrutinized companies by asset manager. Through the first quarter of 2008, there were aggregate purchases of \$10.2 million and sales of \$13.7 million resulting in a net decrease of \$3.5 million in holdings of scrutinized companies.



The percentage of net divestment activity implies there has been no material affect on the aggregate risk or return due to the Policy. Additional quantitative analysis will be provided with the next quarterly report.

### **Next Steps**

Staff will continue implementing the Policy and provide another status report in August. As always, staff welcomes feedback on the format and content of this report.

ATTACHMENT A



**Ohio Public Employees Retirement System**

**Iran and Sudan Divestment Policy**

**September 2007**

**TABLE OF CONTENTS**

**I. SCOPE .....1**

**II. PURPOSE.....1**

**III. LEGAL AUTHORITY .....1**

**IV. INVESTMENT PHILOSOPHY .....1**

**V. OBJECTIVES .....1**

**VI. PROCESS .....2**

**VII. RISK MANAGEMENT.....2**

**VIII. ROLES AND RESPONSIBILITIES.....2**

**A. BOARD OF TRUSTEES .....2**

**B. INVESTMENT STAFF .....2**

**C. CORPORATE GOVERNANCE STAFF .....2**

**D. INVESTMENT ADVISOR.....2**

**E. LEGAL STAFF AND FIDUCIARY COUNSEL.....3**

**IX. MONITORING AND REPORTING .....3**

**Revision History**

Action  
**Policy Established**

Date Approved  
**September 12, 2007**

## **I. SCOPE**

This policy applies to public stocks and bonds in the Non-U.S. Equity and Global Bonds assets classes that are actively managed through separate accounts.

This policy applies to the Ohio Public Employees Retirement System ("OPERS") Defined Benefit Fund and Health Care Fund.

## **II. PURPOSE**

This policy addresses the management of potentially unique risks posed by certain public stock and bond investments in companies with ties to Iran and Sudan.

## **III. LEGAL AUTHORITY**

Through Section 145.11 (A) of the Ohio Revised Code (ORC), the OPERS Board is expected to discharge its duties solely in the interest of participants and beneficiaries for the exclusive purpose of providing benefits and defraying reasonable costs.

Through Section 145.11 (B) of the ORC, it is expected that, "In exercising its fiduciary responsibility with respect to the investment of the funds, it shall be the intent of the Board to give consideration to investments that enhance the general welfare of the state and its citizens where the investments offer quality, return and safety comparable to other investments currently available to the Board."

## **IV. INVESTMENT PHILOSOPHY**

Investments in companies with ties to Iran and Sudan may pose potentially unique risks and the Board desires that the staff identify and engage those companies. Failure of these scrutinized companies to remedy these potential risks will cause restrictions on new investments in the scrutinized companies and the divestment of existing investments in the scrutinized companies if comparable investments offering similar quality, return and safety are available.

These efforts will be conducted in a manner consistent with fiduciary duty, demonstrating prudence and consistent with best practices.

## **V. OBJECTIVES**

This policy establishes a goal of reducing investment exposure to the potentially unique risks associated with investments in companies with ties to Iran and Sudan when comparable investments offering similar quality, return and safety are available.

## VI. PROCESS

Investment staff will develop an Iran and Sudan Divestment Process to identify and engage companies with ties to Iran and Sudan that includes restrictions on new investments and divestment of existing investments if comparable investments offering similar quality, return and safety are available.

## VII. RISK MANAGEMENT

Divesting public stocks and bonds that are components of asset class and/or portfolio benchmarks may cause an increase in tracking error relative to the associated benchmarks. Staff will monitor the effect of this policy on the returns and associated tracking errors.

## VIII. ROLES AND RESPONSIBILITIES

### A. Board of Trustees

The Board is responsible for:

- Periodically reviewing and approving any recommended changes to this policy
- Monitoring compliance to this policy
- Reviewing reports associated with this policy

### B. Investment Staff

The Investment staff is responsible for:

- Recommending modifications to this policy
- Approving modifications to the Iran and Sudan Divestment Process described in Section VI
- Ensuring that investment management agreements and guidelines are consistent with this policy and the Iran and Sudan Divestment Process described in Section VI
- Performing assigned duties in the Iran and Sudan Divestment Process described in Section VI

### C. Corporate Governance Staff

Corporate Governance staff is responsible for:

- Performing assigned duties in the Iran and Sudan Divestment Process described in Section VI

### D. Investment Advisor

The investment advisor is responsible for:

- Assisting staff with the policy recommendations and providing advice to the Board per contractual obligations

- Monitoring and reporting on the compliance with this policy

E. Legal Staff and Fiduciary Counsel

Legal staff and fiduciary counsel are responsible for:

- Advising staff and the Board of Trustees regarding legal compliance and fiduciary duty
- Performing assigned duties in the Iran and Sudan Divestment Process described in Section VI

**IX. MONITORING AND REPORTING**

Investment staff will provide the Board of Trustees with quarterly reports for the first year of policy implementation and semi-annual reports thereafter. These reports will include, but are not limited to the following:

- The company screening criteria
- A list of scrutinized companies
- Summary return and risk analysis for divestment activity

**Attachment B**

**Ohio Public Employees Retirement System  
Iran and Sudan Divestment Process**

**September 2007**

## Table of Contents

I.	PURPOSE.....	1
II.	RESPONSIBILITIES.....	1
III.	PROCESS.....	1
A.	SCREENING VENDOR ENGAGED.....	1
B.	SCREENING CRITERIA ESTABLISHED.....	1
C.	PRELIMINARY SCRUTINIZED COMPANIES IDENTIFIED.....	1
D.	ENGAGE PRELIMINARY SCRUTINIZED COMPANIES.....	1
E.	DETERMINE SCRUTINIZED COMPANIES.....	2
F.	INTERNAL DISTRIBUTION OF THE LIST OF SCRUTINIZED COMPANIES.....	2
G.	NOTIFY INVESTMENT MANAGERS.....	2
H.	PREPARE AND DISTRIBUTE REPORTS.....	2
A.	FLOW CHART.....	A

## Revision History

Action  
Process Established

Date Approved  
September 12, 2007



## I. Purpose

This process corresponds to Section VI of the Iran and Sudan Divestment Policy and establishes the guidelines for identifying and engaging companies with ties to Iran and Sudan, including restrictions on new investments and divesting existing investments if comparable investments offering similar quality, return and safety are available.

## II. Responsibilities

The Investment staff is responsible for managing and implementing this process.

The Iran and Sudan Divestment Committee (ISDC) consists of the General Counsel, Corporate Governance Manager and the Senior Investment Officer - External Public Markets. Other interested parties may participate as required. The ISDC will establish the screening criteria for the Screening Vendor and make recommendations regarding classification as scrutinized companies. The ISDC may also meet to discuss other items related to the Iran and Sudan Divestment Policy or this process. Meeting notes will record discussion highlights and recommendations.

The Senior Investment Officer - External Public Markets, Senior Portfolio Manager - Global Bonds, Senior Investment Officer - Funds Management and Corporate Governance Manager shall perform duties as described herein.

The Investments Compliance Manager will monitor compliance to this process and provide associated reports to the Board of Trustees quarterly during the first year of implementation and semi-annually thereafter.

Modifications to this process require the approval of the Director - Investments. The Director - Investments shall notify the Board of Trustees of any modifications to this Iran and Sudan Divestment Process.

## III. Process

The following steps describe the process framework.

### A. Screening Vendor Engaged

The Corporate Governance Manager will engage and maintain a relationship with a vendor to provide screening services for companies with ties to Iran and Sudan.

### B. Screening Criteria Established

The ISDC will establish the screening criteria for the Screening Vendor.

### C. Preliminary Scrutinized Companies Identified

The Screening Vendor will generate a list of preliminary scrutinized companies based on the established screening criteria. This list will be generated every quarter.

### D. Engage Preliminary Scrutinized Companies

The Corporate Governance Manager will send a letter to the preliminary scrutinized companies advising them of our Iran and Sudan Divestment Policy and requesting information on their business activities with Iran and Sudan. These efforts may be coordinated with other institutional investors.

E. Determine Scrutinized Companies

The Corporate Governance Manager will prepare and present information on each preliminary scrutinized company to the ISDC for making a recommendation on the status as a scrutinized company or a non-scrutinized company. The ISDC may also seek additional information prior to making a recommendation. The ISDC will present recommendations to the Director-Investments for a final determination.

F. Internal Distribution of the List of Scrutinized Companies

The ISDC will prepare a list of Scrutinized Companies every six months. This list will be presented to the , Board of Trustees, Compliance Manager, the Senior Portfolio Manager - Global Bonds and the Senior Investment Officer - Funds Management.

G. Notify Investment Managers

The Senior Investment Officer - External Public Markets will notify affected external managers of the Scrutinized Companies and 1) prohibit them from purchasing public stocks and bonds of the Scrutinized Companies if comparable investments offering similar quality, return and safety are available and 2) encouraging them to divest existing holdings of public stocks and bonds of Scrutinized Companies if comparable investments offering similar quality, return and safety are available. Managers shall maintain records supporting the decisions and analyses of comparable investments.

The Senior Portfolio Manager - Global Bonds is 1) prohibited from purchasing public stocks and bonds of the Scrutinized Companies if comparable investments offering similar quality, return and safety are available and 2) is encouraged to divest existing holdings of public stocks and bonds of Scrutinized Companies if comparable investments offering similar quality, return and safety are available. The Senior Portfolio Manager - Global Bonds shall maintain records supporting the decisions and analyses of comparable investments.

H. Prepare and Distribute Reports

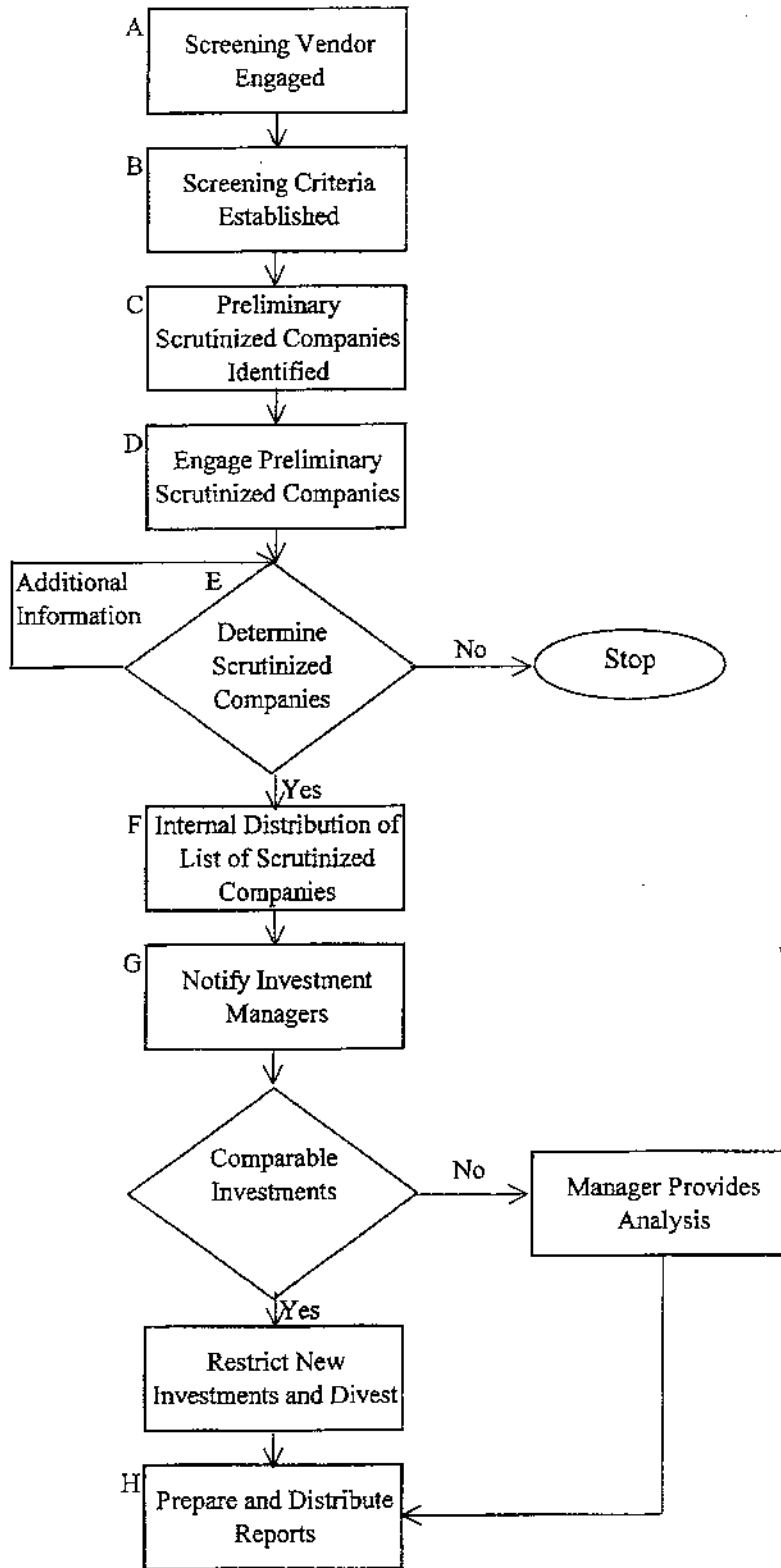
The Senior Investment Officer - External Public Markets and Senior Portfolio Manager - Global Bonds shall prepare and deliver a report to the ISDC listing the holdings of Preliminary Scrutinized Companies, Scrutinized Companies and associated divestment activity. These reports will be quarterly for the first year of implementation and semi-annually thereafter.

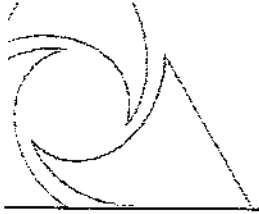
The Senior Investment Officer - Funds Management shall prepare a report to the ISDC describing the divestment effects on associated tracking errors and returns. These reports will be quarterly for the first year of implementation and semi-annually thereafter.

The Senior Investment Officer - External Public Markets shall prepare and deliver to the Board of Trustees quarterly reports for the first year of implementation and semi-annually thereafter. These reports will include, but are not limited to the following:

- The company screening criteria
- A list of scrutinized companies
- Summary return and risk analysis for divestment activity

A. Flow Chart





**OHIO PERS**

**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:**

- (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.



\* as applied by OPERS' screening provider

---

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.



Ohio Public Employees  
Retirement System  
277 East Town Street  
Columbus, Ohio 43215

---

Ohio Public Employees Retirement System

**OPERS**

January 2, 2008

[REDACTED]

SENT VIA E-MAIL

Re: OPERS Iran and Sudan Divestment Scrutinized Company List

Dear Mr. [REDACTED]

Pursuant to the recently executed Amendment to the Investment Manager Agreement, enclosed please find the list of "Scrutinized Companies" identified by the OPERS Iran and Sudan Divestment Committee. OPERS will provide the Scrutinized Company List on a semi-annual basis.

If you have any questions, please contact DeAnne Rau, Portfolio Manager- External Management Group at:

Ohio Public Employees Retirement System  
277 East Town Street  
Columbus, OH 43215  
United States of America  
(001) 614.228.3443  
(001) 614.228.3750 (fax)  
drau@opers.org

Sincerely,



Jenny Horn  
OPERS Director-Investments

ATTACHMENT E	
List of Scrutinized Companies: Iran	List of Scrutinized Companies: Sudan
Acs, Actividades de Construccion y Servicios S.A	Alcatel-Lucent
Aggreko PLC	Alstom
Aker ASA	AREF Investment Group Co
BG Group plc	AVICHINA INDUSTRY & TECHNOLOGY
Bow Valley Energy Ltd	Bharat Electronics Ltd
China Petroleum & Chemical Corp.	Bharat Heavy Electricals Ltd.
CNOOC LTD	Bollore (Formerly Bollore Investissement)
CNPC Hong Kong Ltd.	China Petroleum & Chemical Corp.
Costain Group PLC	CNPC Hong Kong Ltd.
Daelim Industrial Co.	Dongfeng Motor Group Company Ltd
ENI Spa	Electricity Generating Public Co Ltd
Essar Oil Ltd.	Harbin Power Equipment Co.
Gazprom OAO	I.C.S.A (INDIA) LTD
GS Holdings Corp.	Indian Oil Corporation Ltd
Indian Oil Corporation Ltd	Kejuruteraan Samudra Timur BHD
Inpex Holdings Inc.	Kencana Petroleum Bhd
Itochu Corp.	La Mancha Resources Inc.
JGC Corp.	Lundin Petroleum A
L'Air Liquide SA	Mangalore Refinery & Petrochemicals Ltd.
Linde AG	MISC Berhad (Formerly Malaysia International Shipping Corpor
Liquified Natural Gas	MMC Corporation Bhd (frmly Malaysia Mining Corp. Bhd)
Lukoil Oao	Muhibbah Engineering (M) Berhad
MISC Berhad (Formerly Malaysia International Shipping Corpor	Nam Fatt Corporation Berhad
Mitsubishi Heavy Industry Ltd.	Oil & Natural Gas Corporation Ltd.
Mitsui & Co.	PECD BHD
Mitsui Engineering & Shipbuilding Co. Ltd.	Petrochina Company Limited
Norsk Hydro ASA	Petrofac Ltd
Oil & Natural Gas Corporation Ltd.	Petronas Dagangan Bhd
OMV AG	Petronas Gas Bhd
Petrochina Company Limited	PSL Ltd.
Petroleo Brasileiro	Reliance Industries Ltd.
Petronas Dagangan Bhd	Sarawak Energy Bhd (Formerly Sarawak Enterprise Corp. Bhd.)
Petronas Gas Bhd	Scomi Engineering
Repsol YPF S.A	SCOMI GROUP BERHAD
Rio Tinto plc	Sinopec Kantons
Rolls-Royce Group plc	Sinopec Shanghai Petrochemical Co. (formerly Shanghai Petrochemical Co Ltd)
Royal Dutch Shell PLC	Societe des Participations du Commissariat a l'Energie Atomique (Areva)
Saipem	Sudan Telecom Co. Ltd. (SUDATEL)
Samsung Engineering Co. Ltd.	Total SA (Formerly Total Fina Elf S.A )
Samsung Heavy Industries Co Ltd	Wartsila Oyj (Formerly Metra Oy)
Sasol Ltd.	
Schlumberger Ltd.	
Snam Rete Gas	
Snec-Lavalin Group Inc.	
StatoilHydro ASA (formerly Statoil ASA)	
Technip (Formerly Technip-Coflexip)	
The Weir Group plc	
Total SA (Formerly Total Fina Elf S.A )	

ATTACHMENT F

Asset Class	Manager	Market Value	Scrutinized Companies	%	Market Value	Scrutinized Companies	%	Purchases	Sales	Net Purchases
Non U.S. Equity	Acadian ACWJ	\$713,931,680	\$42,211,791	5.9%	\$643,199,422	\$37,970,938	5.9%	\$0	\$0	\$0
Non U.S. Equity	Acadian- Non US Small Cap	\$579,159,203	\$2,698,686	0.5%	\$519,774,232	\$3,058,079	0.6%	\$0	\$0	\$0
Non U.S. Equity	Acadian-Emerging Market	\$230,090,870	\$23,138,845	9.3%	\$226,390,384	\$18,406,068	8.1%	\$1,400,576	\$3,232,304	(\$1,831,728)
Non U.S. Equity	AllianceBernstein	\$1,534,200,527	\$219,075,107	14.1%	\$1,395,362,651	\$187,497,978	13.4%	\$0	\$5,296,728	(\$5,296,728)
Non U.S. Equity	Brendes	\$1,465,356,250	\$22,730,164	1.6%	\$1,260,093,782	\$17,970,883	1.4%	\$0	\$0	\$0
Non U.S. Equity	JP Morgan	\$667,391,113	\$75,060,314	11.2%	\$606,286,153	\$74,602,106	12.3%	\$768,286	\$0	\$768,286
Non U.S. Equity	LSV	\$334,483,248	\$72,476,089	21.7%	\$324,536,634	\$19,842,699	6.1%	\$0	\$0	\$0
Non U.S. Equity	OMA	\$290,716,950	\$20,472,280	7.0%	\$262,681,447	\$17,373,018	6.6%	\$1,731,614	\$1,588,623	\$142,991
Non U.S. Equity	T Rowe Price	\$261,204,164	\$23,326,611	8.9%	\$226,461,288	\$17,353,693	7.7%	\$0	\$1,612,410	(\$1,612,410)
Non U.S. Equity	The Boston Company	\$314,512,473	\$41,172,950	13.1%	\$286,370,659	\$37,820,280	13.2%	\$666,169	\$172,902	\$493,268
Non U.S. Equity	TT International	\$697,253,400	\$61,743,255	8.9%	\$898,217,732	\$61,074,232	6.8%	\$5,626,055	\$1,840,203	\$3,785,852
Non U.S. Equity	Walter Scott & Partners	\$561,890,247	\$57,335,108	10.2%	\$514,076,437	\$32,540,836	6.3%	\$0	\$0	\$0
Global Bonds	API-CIO	\$98,612,853	\$0	0.0%	\$99,131,283	\$0	0.0%	\$0	\$0	\$0
Global Bonds	Capital Guardian	\$247,243,917	\$1,869,264	0.8%	\$226,218,430	\$1,701,849	0.8%	\$0	\$0	\$0
Global Bonds	Fort Washington	\$109,902,722	\$0	0.0%	\$108,424,491	\$0	0.0%	\$0	\$0	\$0
Global Bonds	Goldman Sachs	\$193,271,547	\$0	0.0%	\$162,588,407	\$0	0.0%	\$0	\$0	\$0
Global Bonds	Infarmal Core Bond	\$9,538,825,085	\$0	0.0%	\$8,743,346,807	\$0	0.0%	\$0	\$0	\$0
Global Bonds	Pear Advisory	\$224,316,990	\$0	0.0%	\$213,466,319	\$0	0.0%	\$0	\$0	\$0
Global Bonds	Pyramis	\$351,094,843	\$0	0.0%	\$158,706,992	\$0	0.0%	\$0	\$0	\$0
Global Bonds	Silenkman	\$195,340,428	\$0	0.0%	\$191,236,923	\$0	0.0%	\$0	\$0	\$0
Global Bonds	Smith Breeden	\$332,403,301	\$0	0.0%	\$347,500,418	\$0	0.0%	\$0	\$0	\$0
Global Bonds	Stone Harbor	\$222,345,365	\$0	0.0%	\$221,049,637	\$0	0.0%	\$0	\$0	\$0