



Ohio Public Employees Retirement System

Iran and Sudan Divestment Policy

September 2007

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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

Ohio Public Employees Retirement System

Iran and Sudan Divestment Process

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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

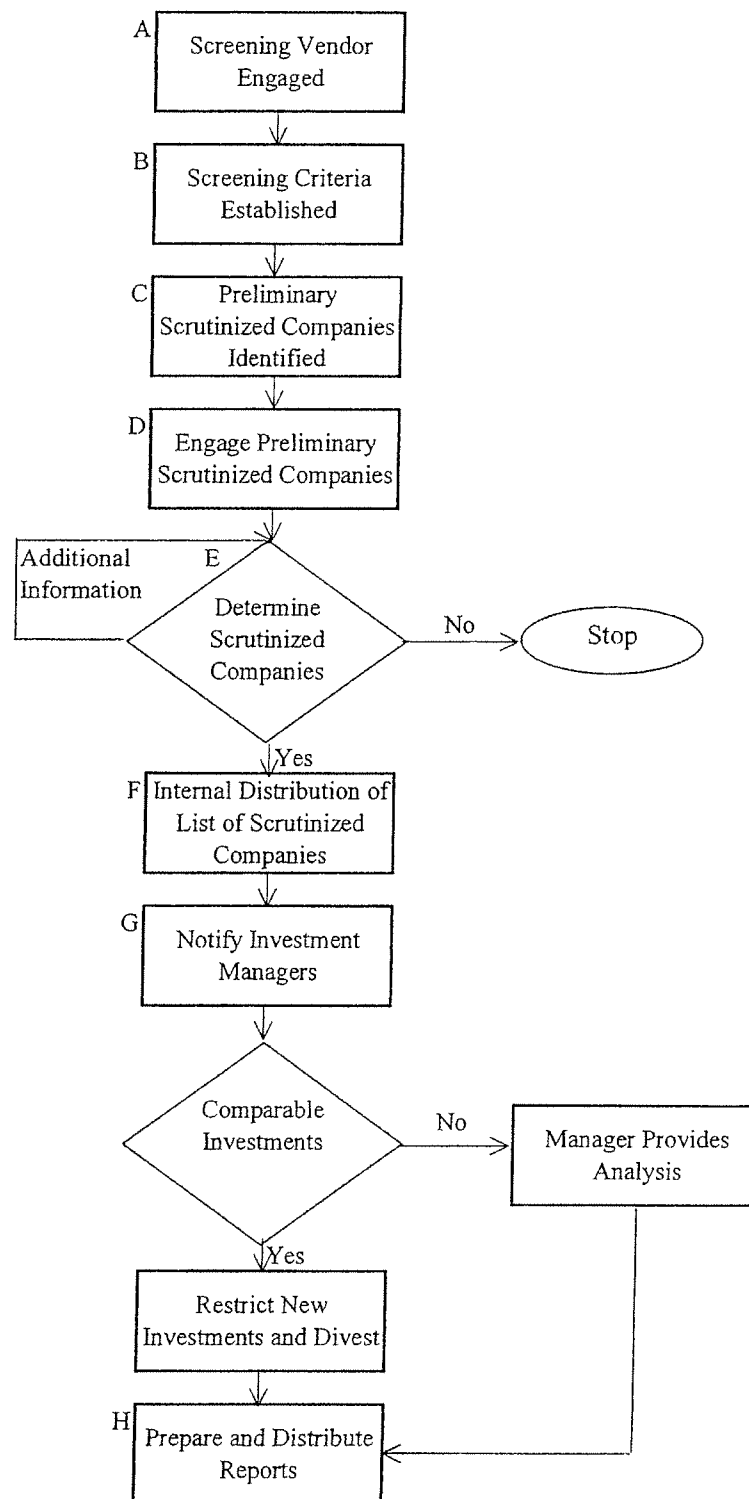
The Senior Investment Officer - External Public Markets and Senior Portfolio Manager - Global Bonds shall prepare and deliver a report to the ISDC listing the holdings of Preliminary Scrutinized Companies, Scrutinized Companies and associated divestment activity. These reports will be quarterly for the 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-related 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 aid to the Darfur region; actively working to deny, cover up, or alter the record on human rights abuses in Darfur; or other similar actions.



Ohio Public Employees
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