

BREAKING NEWS

PERSI BOARD ANNOUNCES DIVESTMENT DECISION

After several months of researching and investigating issues relating to divestment of PERSI funds from companies doing business in the Sudan, the PERSI Retirement Board announced it would not direct PERSI to divest because it would go against the Board's fiduciary responsibility to act solely in the best interest of PERSI members. At the July 24, 2007 meeting, the Board also announced PERSI would be establishing a "Sudan-free" 401 (k) investment option for members who want to direct their investments based on social issues. In making the announcements, the Retirement Board once again expressed concern and condemnation of the genocide taking place in the Darfur region of the Sudan.

The Situation in Sudan

In early 2003, a conflict began in the Sudan when rebel groups called for the redress of social and economic grievances and demanded greater political power. The Sudanese government saw this as a threat and began carrying out a policy of extermination against the African tribal people of Darfur where the rebels were based. The government employed a large Arab militia known as the Janjaweed to implement the genocide policy. The United Nations has estimated that as many as 450,000 people have been killed and that approximately 2.5 million people have been displaced because of the conflict.

PERSI Board Condemns the Genocide

The Board has continually condemned the genocide taking place in the Sudan since the question of divestment was first raised in January 2007. Divestment is the use of an economic boycott to force companies to apply pressure on governments to make policy or regime changes. Some argue the Sudanese extermination policy is allowed to continue because companies doing business with the government indirectly provide resources necessary for carrying

out the hostile actions. Others argue that divestment will not bring about a change. All agree the situation in Darfur is horrendous.

Idaho Legislature

Early in the 2007 legislative session, the Idaho Senate Committee on Commerce and Human Resources declined to consider a bill that would direct PERSI to divest nearly \$45 million in investments from companies doing business with the government of Sudan. By direction of the Legislature, the matter came before the PERSI Board. After considering input from members, retirees, and others from the community, the Board passed a resolution at its February meeting to study the issue in detail to ensure that any decision would be in the best interest of PERSI members.

Research and Reports

Since the February resolution, eight reports comprising approximately 650 pages have been presented to the Board. The contents of the reports came from presentations, academia, news video clips, investment managers, and other knowledgeable sources. As the Board sifted through and considered the materials, a number of other public pension systems around the country announced their own divestment decisions. Each decision was reviewed and compared to PERSI's policies, Idaho Code, and other measures. This was especially important when legislation passed in Illinois was challenged in court and determined to be unconstitutional.

Basis for the Board's Decision

In reviewing the volumes of information in the reports, the Board found itself continually coming back to the same question: ***Would divestment be in the best interest of members?*** Before reaching a decision, the PERSI Board (like those of other pension systems) struggled with a number of core questions:

(1) The Board has a fiduciary responsibility to act in the best interest of the beneficiaries of the fund. PERSI assets are not public money; it is trust fund money that is invested at the direction of the Trustees who are legally bound to manage those funds solely in the interests of the members. ***Would divestment based on this social issue violate that legal obligation?***

(2) Many agree that pressure should come from the federal government or the international community. ***Does it make sense for PERSI to try to be the agent of change when the federal government hasn't set a clear policy of its own?***

(3) PERSI does not invest directly in the Sudan, but in international companies which may be doing business in the region. ***Would divestment in these companies mark the beginning of a broader social investment agenda for PERSI? Should additional investment criteria based on promoting social or political issues be part of PERSI's investment policy?***

(4) There is ongoing debate on the effectiveness of divesting as a strategy for stemming the genocide. Many authorities view divestment generally as a symbolic gesture. ***Can the effectiveness of divestment be determined? Will divestment force companies to apply pressure on the Sudanese government?***

(5) Any additional operating costs associated with this issue would need to be determined. ***Can the Board justify the additional costs of divestment no matter how small?***

(6) Satisfying members wanting to divest without violating the Board's fiduciary duty needs to be explored. ***What, if anything, can PERSI do for members wanting action regarding the situation in Darfur?***

(7) Many members don't want PERSI to divest. ***How or can PERSI satisfy members who are against divestment?***

These are just a few examples of the questions raised by the Board as it considered the divestment issue.

Fiduciary Responsibility

The divestment materials reviewed by the Board clearly showed that for legal and fiduciary reasons, PERSI could not divest members' retirement money. To do so would go against the Board's duty and responsibility to operate solely in the members' best interest. According to Board

Chairman Jody Olson, "PERSI's single mission is to ensure members' have a secure retirement. That can only be accomplished through wise investment decisions and good management. Each Trustee is deeply sympathetic to the plight of the people of Darfur and we applaud the United States government for recently imposing sanctions against the Sudanese government."

Additional Choice Plan Investment Option

Understanding that some members may want to direct their own investments in the Choice Plan 401(k) based on the Sudan issue, the Board directed PERSI to identify a "Sudan-free" investment option. Once established, members will be able to move money from their existing investment choices to the new option. "Social investment alternatives are becoming more common in corporate America, so it makes sense for PERSI to explore the options for its members," noted Olson. "Members have always been able to select from among several investment options for their Choice Plan account. Offering a Sudan-free option will let members exercise individual discretion and allow them to make investment decisions according to personal beliefs and strategies."

PERSI will research the various options over the next 30 days and make a recommendation at the August Board meeting. Once specific details are finalized, members will be notified and the necessary forms will be provided for selecting the Sudan-free investment option.

Divestment Materials Available

Members interested in reviewing the materials the Board considered when making its divestment decision can obtain a CD by contacting the PERSI Answer Center at 208-334-3365 in the Boise area, or by calling toll-free 1-800-451-8228 from elsewhere in the state.

Board Meetings

Board minutes are available on the PERSI Web site at www.persi.idaho.gov for anyone wanting to read more about the divestment discussion over the past several months, or about other matters of concern. Meetings are usually held in Boise on the fourth Tuesday of each month, except for a June hiatus and a combined November-December meeting. The meetings are open to the public.

Employers may share this newsletter with employees who are interested in the divestment issue or direct them to the PERSI Web site to read the board meeting minutes.