INVESTMENT POLICY STATEMENT

NEW YORK CITY EMPLOYEES' RETIREMENT SYSTEM

Adopted
November 23, 2004
Amended
October 24, 2006

TABLE OF CONTENTS

SECTION I. PURPOSE OF THE INVESTMENT POLICY STATEMENT

The Board of Trustees (Board) of the New York City Employees' Retirement System (NYCERS) has determined that it will establish a written, comprehensive and integrated Investment Policy Statement (IPS) in furtherance of the management and investment of its assets (the Fund).

The Investment Policy Statement sets forth the investment objectives and philosophy of NYCERS' investment program, as well as its major components, procedures and policies relating to risk tolerances, liquidity needs, asset allocations and rebalancing ranges. The Statement sets forth procedures to oversee and evaluate the overall performance of the Fund. The Statement further provides a procedural framework for the Board of Trustees and the Comptroller's Bureau of Asset Management ("BAM") to select, retain, monitor and evaluate the performance of Investment Managers, Consultants and others.

Separately approved Investment Policy Statements for Alternative Investments, for Real Estate, and for Economically Targeted Investments are appended hereto and made a part of this overall policy by reference (see Appendices).

SECTION II. INVESTMENT POLICY ROLES

A. Board of Trustees

Pursuant to the New York City Administrative Code, NYCERS is administered by the Board of Trustees, which is comprised of eleven voting members , as described below.

1. A representative of the Mayor, appointed by the Mayor, is entitled to cast one vote. The Mayor may designate, by written authorization filed with the Board, one or more members of his or her office to act in place of the representative in the event of his or her absence. The Mayor's representative or designee is the Chair of the Board.

2. The Public Advocate is entitled to cast one vote. The Public Advocate may designate, by written authorization filed with the Board, one or more officers or employees appointed by him or her to act in his or her place as a Board member.

3. The Comptroller is entitled to cast one vote. The Comptroller may designate, by written authorization filed with the Board, one or more officers or employees appointed by him or her to act in his or her place as a Board member.

4. Each Borough President is entitled to cast one-fifth of a vote and may designate, by written authorization filed with the Board, his or her Deputy Borough President, Executive Assistant to the Borough President or Counsel to the Borough President to act in his or her place as a member of the Board.

5. Three employee representatives are entitled to cast one vote each. The Chief Executive Officer of each of the three employee organizations designated will be one of the representatives. The City's Director of Labor Relations (or other officer performing the same or similar functions under another title) will designate, in writing filed in his or her office and with the Board, the three employee organizations that represent, for the purposes of collective bargaining on pension matters, the largest number of employees who are members of NYCERS. The designation will be reviewed annually by such director or other officer, and if the review discloses a change in the standing of the employee organizations concerned, the designation shall be revised to specify the three employee organizations having leading representational status.

   Any employee representative may designate, by written authorization filed with the Board, one or more persons to act in the place of such Board member, in the event of the member's absence, provided that the bylaws or constitution of the organization of which he or she is Chief Executive Officer authorize such designation.

As provided in the New York City Administrative Code, each act of the Board shall be by a resolution adopted by at least three and three-fifths votes. The concurrence of one employee representative and one non-employee representative member or members entitled to one vote are necessary for an act of the Board. A quorum of the Board consists of members entitled to cast at least three and three-fifths votes.

The Board, as a fiduciary, is responsible for the management of the Fund. Activities of the Board include the following:

- Establish and adopt written investment policies, including delegations of authority, desired risk levels, investment time horizons, and proxy voting policies. The written investment policies will guide the management of the Fund consistent with the Fund's investment goals and objectives.

- Adopt an appropriate asset allocation strategy that diversifies assets in a manner consistent with the Board's risk/return objectives.

- Consider and approve appropriate investment strategies.

- Determine the Investment Manager structure for implementation of investment strategies, including such factors as manager style and active vs. indexed management approaches.

- Select Consultants and Investment Managers to implement the investment strategies.

- Approve the commencement, strategy, and settlement of securities litigation,.

- Monitor the performance of Plan assets as well as the investment activities of all Investment Managers and Investment Consultants as they affect Plan assets.

- Approve reasonable and necessary investment expenses to acquire, manage and protect Plan assets.

B. Comptroller

Under the New York City Administrative Code, the Comptroller serves as a trustee of the Board and as custodian for NYCERS' assets. As custodian, the Office of the Comptroller, by and through the Bureau of Asset Management (BAM), performs activities including:

- Selection of one or more custody banks, including a Master Custodian for the safekeeping of NYCERS' assets, and monitoring of the performance of the custodians.

- Reconciliation of the monthly accounting statements rendered by the Master Custodian with (a) daily information on trades and positions of publicly traded securities provided by Investment Advisors; and (b) periodic information provided by Managers and Consultants regarding illiquid securities. The reconciled statements are provided to NYCERS' Chief Accountant and form the basis for the investment performance sections of NYCERS' financial statements.

- Review, audit and processing of payments to Investment Advisors, Investment Counsel, and Consultants.

By delegation, which is reviewed annually by the Board, the Comptroller also serves as Investment Advisor to the Fund.

In its role as Investment Advisor, the Office of the Comptroller provides investment advice, implements Board decisions, and reports on investment performance. In carrying out these functions, BAM:

- Advises the Board on all investment issues, including:

    - Investment policy and strategy
    - Asset allocation
    - Manager structure

  - Manager selection
  - Financial and economic developments that may affect the Plan.

- Evaluates and recommends to the Board potential investment partners, Managers and Consultants for NYCERS' assets pursuant to established procedures and Board policies.

- Provides the NYCERS Proxy Committee analyses of proxy issues and vote recommendations, votes proxies of domestic equity securities, and recommends and implements NYCERS' annual ownership initiatives.

- Informs the Board of significant developments regarding NYCERS' assets.

- Implements Board investment decisions.

- Rebalances the portfolio within ranges established by the Board.

- Implements portfolio transitions to effectuate Board decisions.

- Negotiates, enters into, renews, administers and terminates agreements with Investment Managers, Consultants and investment partners on behalf of the Board.

- Directs Investment Managers to sell assets to meet NYCERS' liquidity needs, and transfers cash to NYCERS' accounts.

- Monitors the performance of Investment Managers who have been selected by the Board, and reports regularly to the Board on potential issues requiring Board attention.

- Provides regular reports to the Board on the performance of Plan assets.

In executing each of these responsibilities, BAM works closely with Consultants selected by the Board.

C. Executive Director

The NYCERS Executive Director is responsible for the internal administration of the Retirement System. The Board appoints the Executive Director. He or she insures the accurate and timely payment of all benefits and the proper accounting of all financial transactions. He or she creates and safeguards the System's records, and satisfies the System's external reporting requirements.

The Executive Director organizes Board meetings and reports to the Board on operational issues, benefit payments, and service levels. He or she translates the statutory structure of the Plan into efficient operating procedures and incorporates new state and federal legislation into the procedures.

D. Actuary

In its determination of an Investment Policy, the Board of Trustees incorporates information and advice from the Actuary.

In particular, the Actuary provides such insight and guidance as requested with respect to future cash flows, liabilities, risks and the impact of Investment Policy on the funding of NYCERS.

The Actuary advises the Board regarding funding issues, including the level of the Actuarial Interest Rate ("AIR") assumption that the Actuary would support for a given Investment Policy. The Actuary for NYCERS periodically recommends to the Board an AIR assumption, which is currently set at 8.0% per annum, gross of expenses. The AIR assumption is ultimately codified in the New York City Administrative Code.

SECTION III. ELIGIBLE INVESTMENTS

The investment of the Fund's assets is governed by federal, state and New York City law. The Board may invest in securities and other eligible investments primarily described in Section 235 of the New York State Banking Law and Article 4-A of the New York State Retirement Social Security Law (RSSL), Sections 176 – 179a, subject to applicable restrictions.

Within the parameters of the law, the Board establishes asset allocations and awards investment management contracts subject to the following overall policies:

- Plan assets generally may be invested in mortgages, bonds, notes and other fixed income securities of U.S. and certain other issuers.
- Up to 70% of Plan assets may be invested in public equities, including common stock, preferred stock, and investment company shares. Within the overall 70% limit:
    - Up to 70% of Plan assets may be invested in equity securities of U.S.-based publicly traded companies that are traded on a U.S. exchange.
    - Up to 10% of Plan assets may be invested in equity securities of non-U.S.-based publicly traded companies that are traded on a U.S. or foreign exchange and meet certain other requirements.

    - Additionally, up to 5% of Plan assets may be invested in U.S. equity real estate. These investments are included in the overall 70% limit on public equities, even if the underlying securities are not publicly traded.

- In addition, under RSSL Section 177's Basket Clause, the Fund may invest up to 25% of its assets in investments that do not qualify or are not otherwise expressly authorized under RSSL Section 177 or other provisions of law, subject to certain limitations. Examples of such investments include:

    - Equity real estate in excess of 5% of the market value of Plan assets.

    - Private equity investments.

    - Other investments that do not qualify or are not expressly authorized under RSSL Section 177 or other provisions of law.

SECTION IV. INVESTMENT OBJECTIVE

The overall investment objective of NYCERS is to achieve a competitive market rate of return compatible with its risk tolerance and with prudent investment practices, and which, together with employee and employer contributions, will allow it to meet current and future benefit obligations and plan expenses.

NYCERS maintains a long-term perspective in formulating and implementing its Investment Policy, and in evaluating its investment performance because of the long-term nature of its liabilities.

In implementing its investment objective, the Board considers capital market assumptions on projected returns and risk of a variety of asset classes, as well as the current AIR assumption.

The AIR assumption is a key actuarial assumption affecting future NYCERS' funding rates and pension liabilities. Based on the actuarial assumptions and methods recommended by the Actuary and adopted by the Board, an 8.0% per annum return on assets, together with employee and annual employer contributions, is expected to fully fund the Plan over time in order to allow it to meet current and future benefit obligations. Investment performance that exceeds or underperforms the AIR assumption may materially affect future funding rates. The Board seeks to have long-term investment performance that will equal or exceed its AIR assumption.

SECTION V. INVESTMENT PHILOSOPHY AND STRATEGY

The IPS establishes the investment philosophy and strategy of the Board, as well as implementation procedures. The Board may review and revise the IPS from time to time as market conditions or other factors make such revisions advisable.

The Trustees expect asset allocation to be the primary determinant of the Fund's ability to achieve its investment objective. For this reason, equities, and in particular U.S. equities, comprise the largest portion of the System's assets. The Board also strives to diversify the portfolio. Diversification is achieved by investing in asset classes such as fixed income, real estate, and private equity – asset classes in which price movements are less correlated with the price movements of U.S. equities. Moreover, the Board seeks to diversify its portfolio by capitalization, geography, economic sector, and other relevant factors.

Expected returns for asset allocation purposes are calculated based on five-year capital market expectations. Return expectations are consistent with Modern Portfolio Theory in that, for example, equities are expected to generate a higher return than fixed income instruments over the long run, commensurate with their higher expected risk.

The Fund maintains a long-term investment focus implemented through a policy of rebalancing assets to policy weights on a regular basis. Although the Board reviews performance of the Fund, and of individual Managers, on a quarterly basis, and compares them to established benchmarks, the Board establishes long-term strategy through asset allocation studies conducted at least every five years (or more frequently if the Board deems appropriate). These studies assess long-term expected capital market returns, and include reviews of the Manager structure used to implement the asset allocation policy. The Board may also conduct an asset/liability study when, in its discretion, it believes such a study could assist in the asset allocation process.

SECTION VI. ASSET ALLOCATION AND REBALANCING

When the Board desires to conduct an asset allocation review, BAM works with NYCERS' general Consultant (the "Consultant") to present the Board with alternative structures reflecting different risk and return scenarios and asset class diversification strategies. In recommending capital market assumptions and considering asset classes, BAM and the Consultant coordinate their efforts with those of the general Consultants to the other New York City Retirement Systems. The Board establishes an asset allocation based on the analyses and recommendations of BAM and the Consultant (in particular, on a mean-variance optimization model) and on the input provided by the Actuary. Any resulting changes in asset allocation are incorporated into the Investment Policy Statement.

At the direction of the Board, BAM implements the asset allocation policy. To implement changes to the Fund's asset allocation, BAM issues requests for proposals ("RFPs") or, in the case of illiquid investments, coordinates, with specialist Consultants, a competitive process for the selection of investments (in either case, the "Investment Selection Process"). At the end of the Investment Selection Process, the Board selects Advisors, Managers or other vendors, where appropriate, to invest and manage funds. BAM arranges funding to the Manager(s) selected by the Board consistent with these decisions.

NYCERS last adopted an asset allocation in June 2003. The table below shows the long-term strategic allocation adopted as well as the interim allocation as of June 2006 pending full funding of new asset classes.

	Adopted Long Term Strategic Allocation	**Interim Allocation**	**Rebalancing Range**
Equity Securities			
Domestic Equity	41%	50%	+/-4
International - EAFE	15	15	+/-2
International -Emerging Markets	3	3	+/-1
Private Equity	5	**2**)	
Equity Real Estate	6	-)	
Total Equity	**70%**	**70%**	**±5**
Fixed Income Securities			
Core +5 Fixed-Income	**22**	22	+/-4
Enhanced Yield	5	5	+/-1
TIPS	3	3	+/-1/2%
Total Fixed-Income	**30%**	**30%**	**±5%**

Capital market expectations associated with this asset allocation embody a forecast that this asset allocation will achieve an average annualized return of 8.1% gross of expenses, consisting of a 5.5% real return and expected inflation of 2.6%. Because markets are volatile, actual investment returns, even in a broadly diversified portfolio, will likely fall in a range around the expected return in any given year. While the Board intends asset allocation to reduce the volatility of the total portfolio, volatility cannot be eliminated. Based on the assumptions used in establishing this asset allocation, in any given year, the Board expects the 12-month return to be between -5.0% and + 21.2% two-thirds of the time.

Assets are rebalanced to ensure that the System's actual investment mix remains consistent with its asset allocation policy. Volatility in the capital markets and/or over- or under-performance of a particular asset class drive the need to rebalance. The Board reviews its asset mix on a quarterly basis. This range is designed to constrain the extent to which changes in capital markets result in long-term divergences between asset allocation policy and actual investment mix. Significant or extended divergences from policy must have the approval of the Board.

BAM implements the Board's rebalancing policy. BAM monitors the actual investment mix and compares it with the asset allocation policy on a monthly basis. The primary tool for controlling asset class exposure is the payment of pension benefits and expenses from Fund assets. As funds are needed for these payments, BAM seeks to liquidate assets in overweight classes. Assets are liquidated with a goal of maintaining the Board's allocation decisions to asset classes and to portfolio structure targets within asset classes.

In implementing the rebalancing policy, maximizing the alignment of actual and policy asset allocation is not the sole consideration. BAM is authorized to take into account factors which a prudent investor might reasonably consider in purchasing or selling securities such as the size of the asset class, liquidity constraints of each asset class, and relative transaction costs and fees.

Other rebalancing interventions may occur when benefit and expense payments are insufficient to keep asset class exposures within the target or in response to a change in asset allocation policy.

In the event that payments of benefits and expenses are insufficient to keep the System's actual investment mix within the established ranges for the policy's asset classes, or where rebalancing is necessitated by a change in asset allocation policy, BAM implements a plan for liquidating assets in the overweighted asset class(es) and transferring assets to the underweighted class(es). In constructing the plan, BAM considers the size of the asset class, the liquidity constraints of each asset class and the transaction costs and fees connected with any such liquidation and transfer.

Coincident with the asset allocation study, the Board reviews with its Consultant the rebalancing ranges for each asset class and class component and makes any revisions to those ranges that seem appropriate given changes in capital market conditions.

SECTION VII. GUIDELINES

BAM adopts detailed investment guidelines for Investment Managers to ensure implementation of Board mandates. Managers are responsible for certifying their compliance with guidelines on a quarterly basis. BAM also monitors guideline compliance through the Master Custodian's data reporting system.

SECTION VIII. LIQUIDITY

The Fund's asset allocation policy does not include an allocation to cash. Managers are generally expected to be fully invested but may maintain limited cash balances to manage duration of bond portfolios, or as a result of implementing purchases or sales of assets. Cash balances at the Total Fund level for liquidity are expected to remain below 1% although cash may exceed 1% for brief periods to meet benefit payments and rebalancing requirements.

SECTION IX. ROLES AND RESPONSIBILITIES OF SERVICE PROVIDERS

The Board retains service providers to assist in the management of the Fund. Such providers include, but are not limited to, Investment Advisors, general and specialist Investment Consultants, and attorneys. The providers perform in a fiduciary capacity and must exercise the requisite duties of care and loyalty to NYCERS. The Office of the Comptroller retains the Master Custodian and sub-custodians for the Fund.

A. General Consultant

The Board employs a general Consultant, which performs as a fiduciary to the Board. The responsibilities of the Consultant include:

- Advising the Board on the investment of NYCERS' assets.

- Assisting the Board to maintain and update the Investment Policy Statement

- Advising the Board regarding strategies for the allocation of assets across capital markets that will generate a long-term return consistent with the Board's investment objectives and risk tolerance.

- Developing cost-effective structures for the implementation of the Board's asset allocation that will maximize excess returns by Managers while minimizing the volatility of the returns.

- Assisting BAM in identifying potential Investment Managers, in conducting research in screening Managers and in negotiating Investment Manager contracts.

- Monitoring the Investment Managers employed by NYCERS and providing reports and analyses to the Board and BAM relating to material events such as, but not limited to, relative performance, material changes to senior personnel, investment process and organization.

- Preparing presentations or position papers on topical issues and specific projects.

- Attending meetings as required.

B. Investment Managers

Fund assets generally are managed externally by Investment Managers retained by the Office of the Comptroller, acting on behalf of and with authorization from the Board. Exceptions include:

- Certain short-term cash reserves managed by the Master Custodian or by BAM;

- Certain assets lent or invested in through Securities Lending program(s)

- Certain economically targeted investments, managed by BAM;

- Limited partnership investments, that are managed by general partners under limited partnership agreements pursuant to the Board's Alternative Investment Policy and Real Estate Investment Policy.

Investment Managers are identified through an RFP process and are required to enter into an investment advisory contract. Responsibilities include:

- Arranging, ordering and monitoring the purchase and sale of securities for the System's portfolio. The Investment Manager at all times must exercise the highest standard of care to which a professional, ERISA fiduciary or Investment Advisor is subject.

- Adhering to portfolio investment guidelines, including maintaining risk management and oversight policies designed to ensure compliance.

- Advising BAM on possible portfolio guideline amendments that, given the dynamic nature of the capital markets are in the best interest of the System.

- Advising BAM on capital actions relating to securities in or proposed for the portfolio.

- Providing accurate and timely information to the Master Custodian or sub-custodian and to BAM, regarding security transactions and positions.

- Submitting monthly and quarterly reports summarizing portfolio activity.

- Reporting significant changes in ownership or control of the firm or changes in organizational structure or professional staffing.

- Attending account review meetings as necessary, but on at least an annual basis.

C. Master Custodian

By statute, the Comptroller is the custodian of the assets of NYCERS and the other New York City Retirement Systems. Assets include cash (in any currency), securities, any other investments or the product thereof, and earnings and profits generated by those the same.

As Custodian, the Comptroller retains by Agreement a Master Custodian to safeguard the property of the funds that the Custodian or its agents, representatives or sub-custodians may receive from time to time for deposit and or other purposes. (In the case of certain assets such as international equities in commingled accounts, other custodians may be retained to serve as custodians of particular accounts.)

The Master Custodian and its agents and sub-custodians are fiduciaries to the Comptroller, NYCERS, and other Systems and Funds.

The Master Custodian provides many services. It holds the Fund Accounts, effects purchases and sales of the securities, operates a securities lending program for the benefit of NYCERS (see Section XIV), collects income that becomes due and payable on property held in the accounts, makes payment from the accounts at the Comptroller's direction, and maintains books and records to clearly identify cash, securities and other property. Except for specific accounts in which another custodian assumes some of its responsibilities, the Master Custodian is responsible for the safekeeping of all assets, transaction processing, reporting, performance measurement and compliance,

The Master Custodian is also responsible with respect to the various NYCERS portfolios for:

- the preparation, audit and distribution of investment account reports,
- plan accounting,
- performance calculation and reporting of the portfolios, using industry-accepted standards,
- specialized reporting,
- risk reporting,
- providing the Comptroller with the underlying potfolio data and reports needed to monitor compliance with legal restrictions, investment guidelines and other policies set by NYCERS,

- providing the Comptroller the underlying data to support NYCERS' proxy voting, and
- provides notification of class actions, files class action settlement proofs of claims on NYCERS' behalf and collects and posts settlements to various accounts.

D. Private Equity Consultant

NYCERS retains one or more specialist private equity Consultants (the "PE Consultant(s)" to assist in the implementation of its strategic allocation to the private equity asset class. The Consultant(s) are fiduciaries and advise BAM and the Board on all aspects of its private equity investment program. The responsibilities of the PE Consultant(s) include:

- Providing strategic advice:

  - Periodic assessments of industry best practices with regard to policies and procedures.

  - Analysis of NYCERS' existing private equity portfolio.

  - Recommendations with respect to proposed sub-asset allocations (e.g., allocations to corporate finance/buyout funds, venture capital, etc.).

  - Annual and longer-term pacing analyses, translating the NYCERS allocations to private equity, sub-asset allocations and existing portfolio into proposed investment plans.

  - Periodic reports on the state of the private equity marketplace.

  - Such other strategic advice and services as NYCERS or BAM may reasonably require.

- New investment identification and evaluation, including:

  - Periodic reports on current and anticipated investment opportunities.

  - Specific summary and detailed due diligence reports on prospective individual private equity, limited partnerships and other investment opportunities and evaluating the investment merits of such opportunities in the context of the NYCERS portfolio, policies and plans.

  - Detailed non-legal assistance in the negotiation and documentation of authorized commitments.

- Portfolio monitoring
  - Periodic and real-time reports on developments at and performance of individual partnerships in the NYCERS' portfolio.
  - Where necessary, advising on and assisting in actions to protect the interests of NYCERS as an investor and to ensure compliance by general partners with the terms of their partnership agreements.
  - Reviewing and recommending courses of action on partnership amendments.
  - Meeting regularly with the Comptroller's staff and making regular presentations to the Board concerning each of these areas of work, as well as individual investment opportunities, and such other topics as the Board or BAM may request.

E. Real Estate Consultant

To effectively implement its real estate program, the Board has retained a specialist Consultant for real estate. The Real Estate Consultant is a fiduciary to the Board and BAM. The Consultant advises the Board and BAM on all aspects of its real estate investment program. Responsibilities of the Real Estate Consultant include:

- Recommending the initial program design.
- Assisting in the development, implementation, and periodic review of real estate investment policy statements/guidelines.
- Assisting in the development of a performance monitoring program.
- Assisting in the development/implementation of RFPs, the search for, and evaluation and selection of Investment Advisors and Managers, and the negotiation of contract terms.
- Prescreening prospective real estate investment opportunities to determine whether the opportunity meets the investment and portfolio objectives of the Fund.
- Conduct due diligence reviews of prospective real estate Investment Advisors, opportunities, Managers, co-investors, partners, programs, funds and prepare a written report documenting the results of each due diligence review, including a recommendation as to whether the Fund should invest in the reviewed investment.

- Monitoring investment performance and compliance.

- Providing quarterly and annual performance monitoring reports.

- Attending Investment Manager meetings.

- Conducting ongoing and systematic performance analysis in order to identify and report instances of anticipated underperformance or non-compliance with the Fund's real estate investment policies, guidelines, and strategies.

- Providing research and reports on emerging issues, market trends, new investment structures and techniques.

- Attending meetings of the Board, providing educational seminars for the Trustees, and making recommendations and presentations to the Board, as required.

- Meeting regularly with the Comptroller's staff and making regular presentations to the Board concerning each of these areas of work, as well as individual investment opportunities, and such other topics as the Board or BAM may request.

SECTION X. INVESTMENT MANAGERS

A. Manager Selection - Public Markets

The Board selects Investment Managers to manage NYCERS' assets through a competitive RFP process described below. The Board seeks Managers that will provide superior investment management performance. In selecting Managers, the Board evaluates investment management and decision making capabilities, organizational characteristics, including ownership, management and regulatory issues, the performance of potential Managers in specific investment mandates, and fees.

1. Process

- BAM, working with the Consultant, develops and the Board approves a Scope of Services document that defines the investment services sought, the minimum requirements for proposers, and evaluation criteria.

- BAM issues the approved RFP to firms in BAM's database and to firms suggested by the NYCERS consultant(s) and to respondents to advertisements placed in widely distributed industry periodicals.

- BAM, with the Consultant's input, scores the proposals to identify a "short list" of respondents to be interviewed based on technical proposals received in response to the RFP. BAM notifies the Trustees of the interview schedule.

- At one or more meetings open to all Trustees, BAM, with the participation of the Consultant, conducts interviews.

- BAM rescores the proposals with the additional information obtained at the interviews and with the Consultant's input.

- BAM ranks and recommends finalists to be interviewed by the Board for potential selection.

- The Board invites the firms which they have selected as finalists to make presentations. The Board conducts interviews of each of the selected finalists.

- The Board selects Managers, and with the assistance of BAM and the Consultant, allocates assets to each firm. In making its final selection, the Board may consider such factors as:

    - The quality and depth of the Manager's investment team,

    - The Manager's clear articulation of its investment strategy, and

    - The Manager's successful execution of its strategy over time, as evidenced by, for example:

        - Analysis of the Manager's historical quarterly performance calculated on a time-weighted basis, compared to a Global Investment Performance Standards (GIPS) compliant composite of all fully discretionary accounts of similar investment style.

        - Performance evaluation reports prepared by BAM with the assistance of the Consultant that illustrate the risk/return profile of the Manager relative to other Managers.

        - Significant or adverse regulatory issues.

    - The Manager's compliance and information systems.

- BAM negotiates contracts with selected firms.

- BAM funds the Managers' portfolios in accordance with the Board's mandate.

2. General Requirements

Managers selected to manage publicly traded assets for NYCERS must be registered investment advisers under the Registered Investment Advisers Act of 1940 or a bank or trust company as defined in the Act. Managers shall not be the subject of regulatory or enforcement actions, pending or threatened litigation, or legal judgments that in the Board's judgment would impair the Managers' ability to provide expert investment management services to NYCERS.

3. Contract Renewal Policy

Contracts with Investment Managers, Consultants, and other service providers are generally awarded for an initial term of three years, and may be extended at the option of the Board twice for a maximum of three years per extension.

Contracts will provide that the Board may terminate a service provider on 30 days' notice.

B. Manager Selection - Private Markets

NYCERS invests in private equity using a top-down process, seeking to identify investment opportunities which represent superior opportunities relative to the marketplace as a whole and relative to other investment opportunities with a similar strategy. In addition, such opportunities must demonstrate a strong likelihood of producing top-quartile performance, including either:

(a) History of top-quartile performance in a clearly articulated and consistent strategy, or

(b) In the absence of a history of top-quartile performance in the specific investment strategy, other superior relevant experience including a combination of:

i. Time together as a team,
ii. Investment track record assembled elsewhere,
iii. Participation in a top-quartile effort, and
iv. Experience working successfully in the articulated strategy.

Pursuant to its Alternative Investment Policy, NYCERS each year adopts an Annual Plan, establishing sub-asset allocations as the System may deem appropriate, establishing a pace and volume of targeted investment, and identifying specific targets for investment, including both "re-ups" – renewals of existing relationships – and new investment relationships. The Board may also elect to allocate funds to Managers to invest at their discretion under discrete mandates.

Prospective investment opportunities shall be evaluated by the Consultant(s) and BAM in the context of the Investment Policy Statement, the Alternative Investment Policy and the Annual Plan. BAM shall establish and implement due diligence procedures, and shall present recommendations by the Consultant(s) and/or the Comptroller to the Board.

C. Manager Selection – Economically Targeted Investments

NYCERS invests in Economically Targeted Investments (ETIs). ETIs are investments in a variety of asset classes which generate rates of return commensurate with the overall risk, liquidity, security and structure of comparable non-targeted investments while providing collateral economic benefits (benefits that enhance the quality of life and promote economic development and activity) to the targeted areas. The Board, in its ETI Policy, has established requirements regarding the qualifications of prospective ETI Managers and evaluation criteria, by which prospective investments will be considered.

Each year NYCERS adopts an Annual Plan regarding ETIs. Prospective investment opportunities are evaluated by BAM (and Consultants as appropriate) in the context of the Investment Policy Statement for the relevant asset class, the ETI Policy and the Annual Plan. In identifying ETIs, BAM applies appropriate solicitation processes and due diligence procedures, and presents its recommendations to the Board. The Board considers and authorizes ETI investments.

D. Emerging Managers

The Fund seeks to employ Emerging Managers. Emerging Managers are asset Managers the Board believes will add significant value to the Fund through implementation of investment strategies consistent with the Board's asset allocation and other policies, but which, because of size, length of track record, or other similar factors, have not been awarded contracts through the Board's Manager selection process. Smaller Emerging Managers are typically retained pursuant to a Manager of Managers arrangement, while larger Emerging Managers may be retained directly. The Board implements its Emerging Manager program through a competitive RFP process.

E. Brokerage

The Board delegates discretion over placement and execution of securities transactions to its Investment Managers. It is the intention of the Board that all securities transactions be effected to the best advantage of the System regarding price and execution. The Board recognizes that "soft dollar" commissions are allowed under Section 28(e) of the

Securities and Exchange Act of 1934 (commonly referred to as the “safe harbor” provisions). The Board requires its Investment Managers to provide accounting of soft dollar transactions involving securities of the System. These reports shall be provided periodically upon request to BAM, and shall include the number of shares traded, dollar amount of soft dollar commissions, the brokerage firms to which they were directed, and an explanation of the goods or services received.

The Board supports diversity among brokers providing securities transaction services to its Investment Managers. Managers are encouraged, to the greatest extent possible consistent with best execution, to use minority- and women-owned brokerage firms. Investment Managers report the use of minority- and women-owned brokerage firms to BAM.

SECTION XI. PERFORMANCE MONITORING AND EVALUATION

A. Benchmarks

The Board monitors Fund performance against a variety of applicable benchmarks.

1. Policy Benchmark

To monitor the Fund, the Board adopts a Policy Benchmark which reflects the performance of the markets to which the Board has allocated assets. Because of the allocations to new asset classes in June 2003, the Policy Benchmark was and will continue to be adjusted as the allocations to emerging markets, real estate, private equity and TIPS are funded. The Policy Benchmark serves as a minimum performance objective for the Fund, and allows the Trustees to evaluate the implementation of its asset allocation strategy. The Policy Benchmark will be included in all quarterly evaluation reports of NYCERS. As of June 30, 2006, the composition of the Policy Benchmark is:

- 49.7% Russell 3000 Index
- 15.0% Morgan Stanley Capital International EAFE Index
- 3.0% NYCERS Custom Emerging Markets Index
- 22.0% NYC Core +5 Fixed Income Index
- 5.0% Citigroup BB & B Fixed Income Index
- 3.0% Lehman U.S. TIPS Index
- 1.9% Russell 3000 Index + 500 bp
- 0.4% NCREIF Property Index (NPI) + 100 bp

2. Asset Class Benchmarks

The Policy Benchmark is composed of benchmarks which have been established for each individual asset class. The Board will review performance of each asset class relative to its selected benchmark on a quarterly basis.

3. Investment Manager Benchmarks

Each Investment Manager is evaluated relative to an Investment Manager Benchmark composed of a market index plus an active management premium reflecting the Manager's particular style or tactical role in NYCERS' investment program. Each Investment Manager Benchmark will be clearly specified, measurable, and, for liquid securities, investable. Benchmarks may be customized for a particular style or styles. The appropriate Investment Manager Benchmark and expected active management premium shall be determined in advance of funding by mutual agreement between the Investment Manager, BAM and the Consultant.

4. Peer Group Analysis

The Board reviews the performance of the Fund relative to a peer group of other major public pension funds on a quarterly basis. However, due to differences in asset allocation, time horizon, and risk tolerance between public pension funds, comparisons of Fund performance to the AIR assumption and Policy Benchmark are the primary evaluation methods used by the Board.

B. Investment Information

The Board monitors the performance of the Fund and of individual Managers through ongoing monthly and quarterly reviews of performance, market developments, and Manager reviews. The Board uses two primary reports to monitor investment information, the quarterly performance report and the monthly flash report. In addition, the Board may monitor individual Managers through the Watch List. BAM and the Consultant also report to the Board periodically on issues identified by BAM, the Consultant, or the Board as requiring additional review.

On a quarterly basis, the Board reviews a performance report that includes a commentary prepared by the Consultant summarizing portfolio developments and performance. The quarterly performance report also provides detailed quantitative information regarding the risk and performance of Plan assets. Performance is evaluated relative to appropriate market benchmarks, peer comparison universes, and a variety of relevant time periods.

In addition, the Board reviews a flash performance report at each investment meeting.

The flash performance report includes asset class and policy benchmark returns for the prior fiscal year and estimated fiscal year-to-date returns.

Managers provide daily and monthly reports regarding portfolio holdings and transactions to BAM. Managers also complete a detailed quarterly questionnaire regarding portfolio holdings and organizational developments. Responses to the questionnaire are reviewed by the Consultant and BAM. Material developments affecting the Fund are reported to the Board.

C. Manager Watch List

The Board monitors the performance of its Investment Managers on an ongoing basis, through its quarterly reporting process. In general, Manager performance is evaluated over a full investment cycle.

The Board may terminate a Manager at any time. It may also place a Manager on the watch list. When a Manager is placed on the watch list, the Board will specify the reasons for its decision. After the Board places a Manager on the watch list, BAM and the Board's general Consultant will report regularly to the Board on the Manager's progress toward resolving the issue(s) resulting in placement on the watch list. After the Board places a Manager on the watch list, the Board will, typically within one year, either conclude that the issue(s) have been resolved, or terminate the Manager.

The Board may take both qualitative and quantitative factors into account in considering whether to place a Manager on the watch list or whether to terminate a Manager. Examples of qualitative factors include concerns regarding personnel, organizational changes, and ethical, legal or regulatory issues. Examples of quantitative factors are lagging performance or indicators that the investment mandate is not being implemented.

1. Watch List Guidelines - Qualitative Factors

The table below sets forth some of the *qualitative* factors that the Board may consider in determining whether to place a Manager on the watch list or to terminate a Manager.

FACTOR	EVALUATION TECHNIQUE	ACTION STEPS
Changes in ownership	Require immediate notification of any pending changes in ownership.	Assess risk that change may negatively affect investment performance.
Turnover of key personnel	Require immediate notification of any changes in personnel involved in the management of the System's	Assess risk that change may negatively affect investment performance.

	assets, or the senior officers of the Manager.	
Litigation	Require immediate notification if the Manager, a parent, or affiliate is involved in any material litigation, regulatory or enforcement action.	Evaluate nature, seriousness and likely impact of charges on the investment process and take appropriate action.
Conflicts of interest	Require Manager to provide immediate written disclosure.	Review to determine if conflict was material and should have been known by Manager and reported to the Board.
Failure to disclose material information which could affect Manager evaluation	Require Manager to provide immediate written disclosure.	Review information to determine materiality and reasons for failure to disclose.

2. Watch List Guidelines - Quantitative Factors

Managers are expected to exceed their Investment Manager Benchmark (which is composed of a market index plus an active management premium) net of fees over rolling five-year periods. Investment performance is measured on a quarterly basis. Failure to outperform or, in the case of index Managers, to match the market index over time will typically result in placement on the watch list or in the Manager's termination. Failure to outperform the Investment Manager Benchmark (net of fees) may result in placement on the watch list after consideration of tracking error, information ratio, and other quantitative and qualitative factors.

Managers are expected to maintain their stated investment style and philosophy. Quantitative measures of investment style and philosophy include style mapping, style attribution analysis, and tracking error relative to a benchmark. The Consultant monitors these factors on a quarterly basis and advises BAM of potential deviations. Indications that a Manager is not maintaining its investment style and philosophy will typically result in the Board placing the Manager on the watch list. BAM and the Consultant will then present to the Board an evaluation of the Manager's consistency with the Board's asset allocation policy and the Manager's stated investment approach.

SECTION XII. RISK MANAGEMENT

The Trustees recognize the inevitability of the assumption of risk in the management of the Fund's portfolio. The issue of risk is considered during many phases of the investment decision and implementation process. Risk will be analyzed during the asset allocation strategy and decision making phase using such analytic tools as optimization, risk budgeting, value at risk and volatility and tracking error analysis. The portfolio is diversified across both the public and private capital markets in order to achieve the optimal balance of risk and return among asset classes. Managers are required to have internal controls and risk management systems appropriate to their investment disciplines. Managers selected by the Board shall provide information adequate in quantity, quality and timeliness to permit BAM, the Custodian and the Consultant to monitor risk and compliance.

SECTION XIII. PORTFOLIO TRANSITIONS

Transition management is an integral part of portfolio management. When the Board terminates a Manager and re-allocates assets to another Manager, or funds a new mandate, the portfolio must be transitioned. In accordance with public procurement regulations, BAM selects and works with transition Managers to implement each transition.

Transitions are to be completed in a cost-efficient manner given the characteristics of the portfolios and market conditions. Cost-efficiency for equity portfolio transitions is measured by an analysis of total implementation shortfall. BAM presents a post-trade analysis of the transition to the Board upon completion.

SECTION XIV. SECURITIES LENDING

The Board has authorized the Comptroller to enter into agreements establishing participation in securities lending programs. Securities lending enables the Fund to use its asset base to augment investment income. It involves the temporary exchange of securities owned by the Fund for other securities or cash of a greater value, with an obligation of the borrower to pay a fee to the Fund, and to return a like quantity of the borrowed securities at a future date. The fee paid by the borrower is agreed in advance, while the Fund has contractual rights similar to those it would have as the beneficial owner of the securities except that the Fund does not retain voting rights on loaned equity securities.

The objective of securities lending is to earn income through a conservatively operated and well controlled program. There is no absolute return expectation; rather, income is expected to be commensurate with the market demand for the securities made available by the Fund and the return earned on the investment of cash collateral. Cash collateral received will be invested in a high-quality investment program that emphasizes the return of principal, maintains required daily liquidity, and ensures diversification across approved investment types. Those objectives are pursued within the parameters governing the program as outlined in the securities lending agreements with agent banks. Each agent bank is required to act as a fiduciary with respect to NYCERS and the Fund, and to have systemic and procedural controls in place to ensure adherence to guidelines for operating the securities lending program on behalf of the Fund. The results of the securities lending program are reported to the Board on a regular basis.

SECTION XV. SECURITIES LITIGATION PROTOCOL

NYCERS' Board of Trustees objectives in choosing an active role in securities litigation include the following:

a. Preservation of plan assets and collection of all amounts due to NYCERS;

b. Maximizing the net recovery to NYCERS in individual actions and class actions; and

c. Effecting corporate governance reforms, when appropriate.

NYCERS will use the process outlined in the Securities Litigation Protocol, (set forth in Appendix 1 Section 10), in evaluating and acting on any situation in which securities litigation may be appropriate.

SECTION XVI. INVESTMENT EXPENSES

It is the policy of the Board that expenses such as consultants' and investment advisors' fees, attorneys' fees and costs, funding for Personal and Other Than Personal Services resources for BAM and other costs that may necessarily be incurred in acquiring, managing and protecting the Fund's investments may be paid from any income, interest or dividends derived from the Fund's deposits or investments. The Board adopts a budget for the incurrence of consultants' and investment advisors' fees, attorneys' fees and other costs. BAM reviews the expenses and costs and arranges for their payment by the custodian bank. Pursuant to a budget, the Board also funds the expenditures of additional resources of Personal Services and Other Than Personal Services for BAM, which will report at least annually to the Board regarding the additional resources.

SECTION XVII. PROXY VOTING POLICY AND SHAREHOLDER INITIATIVES

The duty of pension fund fiduciaries to exercise the voting rights attached to the shares of stock owned by their funds has long been established. In the early 1980s, top officials of the Labor Department's Pension and Welfare Benefits Administration (PWBA) (renamed Employee Benefits Security Administration (EBSA), which enforces fiduciary standards for plan sponsors and Managers, repeatedly stated that the right to vote shares owned by a pension plan is, in itself, an asset of the plan, and, therefore, the fiduciary's responsibility to manage the assets includes voting proxies on issues that may affect the value of the shares.

While official pronouncements and guidance on proxy voting rights primarily have been directed to the private sector institutions which have established Plans governed by Employee Retirement Income Security Act of 1974 (ERISA), or to the mutual funds industry, many public pension funds, religious and tax-exempt institutions have followed this guidance. Many private and public pension funds have established proxy committees and guidelines for voting their proxies, and exercise their voting rights in accordance with these policies and guidelines.

This general acceptance of the proxy vote as a plan asset is the primary basis on which NYCERS established a Proxy Committee. The Committee promulgates proxy voting policies and procedures, and oversees NYCERS' sponsorship of shareholder proposals to improve corporate governance and corporate social responsibility of companies in which NYCERS invests. NYCERS adopted a "Statement of Procedures and Policies for Voting Proxies" in 1987 which was last amended in 2005. The Proxy Committee seeks to ensure that companies follow sustainable business practices which advance their long-term economic value.

The Board has constituted a Proxy Committee comprised of Trustees representing:

1) The Chair of the Board
2) The Public Advocate
3) International Brotherhood of Teamsters – Local 237
4) District Council 37

The operations of this Committee are described in Appendix 1 Section 11 and are in accordance with the above-mentioned "Statement of Procedures and Policies for Voting Proxies".

SECTION XVIII. ETHICS AND COMPLIANCE POLICY

In furthering the Board's fiduciary duty to manage and invest the assets of the Fund, the Board of Trustees has adopted an Ethics and Compliance Policy (see Appendix 2) establishing a comprehensive set of written requirements for the Investment Consultants (Consultants) and Investment Managers (Managers) who do or seek to do business with the Fund.

In accordance with the Policy (appended hereto as Appendix 2), the Consultants and

Managers shall submit an Annual Compliance Statement to BAM. Such statement shall include a Certification representing that the Policy was received and read, and that the Manager or Consultant is in full compliance therewith. It shall also provide appropriate disclosures of real or potential conflicts, and/or of non-compliance with the law or with policies of the Fund or of the City of New York as they may apply to the Consultant or Manager.

To the extent BAM receives or obtains information indicating that the Consultant or Manager is substantially out of compliance with the Policy and/or substantially in violation of applicable law, BAM will report such information to the Board for whatever action the Board deems appropriate.

SECTION XIX. THE PRINCIPLES FOR RESPONSIBLE INVESTMENT

The Trustees, acknowledging a duty to act in the best long-term interest of NYCERS' beneficiaries, adopted the UNEP Principles for Responsible Investment on March 28, 2006. It is believed that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios over time and that applying these Principles may better align NYCERS' investments with the broader interests of society. As stated in those principles, it is the intent of the Trustees, where consistent with their fiduciary duties, to:

- Incorporate ESG issues into investment analysis and decision-making processes;
- Be active owners and incorporate ESG issues into ownership policies and practices;
- Seek appropriate disclosure on ESG issues by the entities in which NYCERS invests;
- Promote acceptance and implementation of the Principles within the investment industry;
- Work with other adopters of the Principles to enhance the effectiveness of their implementation; and
- Share information on our activities and progress towards implementation of the Principles.

A copy of the Principles is appended hereto as Appendix 6.

SECTION XX. REVIEW AND MODIFICATION OF THE IPS

The Board of Trustees reserves the right to amend the Investment Policy Statement at any time it deems such amendment to be necessary or to comply with changes in Federal, State or City Laws or regulations as these changes may affect the investment of Fund assets. In any event, a review of this Investment Policy Statement shall be undertaken no less frequently than every three years.

The date and a summary description of amendments or modifications to the IPS going forward are to be recorded below:

Date	Summary of Amendment or Modification

APPENDIX I - ASSET CLASS AND SPECIFIC POLICIES

1. U.S. Equities

2. International Equities – EAFE Markets

3. International Equities – Emerging Markets
   A. Emerging Markets – General
   B. Emerging Markets Policy Statement

4. Fixed Income – NYC Core +5 Program

5. Fixed Income – Enhanced Yield

6. Fixed Income – TIPS

7. Alternative Investments

8. Real Estate Investments
   A.. Real Estate Investment Policy
   B. Responsible Contractor Policy

9. Economically Targeted Investments

10. Securities Litigation Protocol

11. Proxy Voting Procedures

1. U.S. Equity

Definition and Purpose

U.S. Equity is defined as common and preferred stock of U.S. and foreign corporations, denominated in U.S. dollars and traded on a U.S. exchange. With a strategic policy weight of 41%, U.S. Equity is the largest asset allocation of the Fund. At the total fund level it is the primary driver of risk and return for the Fund.

Philosophy and Strategy

The U.S. Equity portfolio is structured to capture exposure to the broad U.S. Equity market as represented by the Russell 3000 Index. The U.S. Equity portfolio is diversified across industries, economic sectors and other appropriate investment characteristics.

The Board primarily employs passive management (index funds) in market sectors that it views as efficient, such as large capitalization stocks. Index funds provide broadly diversified market exposure with controlled market risk and minimal cost. To the extent that active management is used in the large cap sector, the Fund uses enhanced index fund Managers.

The Board employs active Managers for a portion of its investments in less efficient sectors of the U.S. Equity Markets when the Board believes that Managers possess skill identifying companies that may be undervalued or have substantial growth potential that will enable them to capture excess returns relative to the sector benchmark, adjusted for risk and fees. The Board allocated 3.6% of the U.S. Equity portfolio to active small and mid-cap Managers in a style-neutral combination..

Style Allocation:

The U.S. Equity portfolio, in aggregate, is managed in a style- and size-neutral basis.

Use of External Managers

The U.S. Equity Portfolio is implemented through the use of external Managers. Multiple Managers may be used for similar or identical mandates in order to reduce Manager-specific risk. Managers shall be banks, insurance companies, or investment management companies, or investment advisers as defined by the Registered Investment Advisers Act of 1940. Managers are selected in compliance with a competitive RFP process designed to identify Managers with demonstrated ability to implement defined mandates. Managers operate subject to a set of detailed investment guidelines developed by the Comptroller’s Bureau of Asset Management pursuant to the Board’s mandate that outlines the Manager’s individual investment philosophies and approaches, representative portfolio characteristics, permissible and restricted securities, benchmarks and performance objectives. Active Manager performance objectives are expressed as a positive out-performance of their Benchmark, net of fees. Managers are evaluated through a formal annual account review process conducted by the Bureau of Asset Management staff. Managers exhibiting under-performance, personnel turnover and/or other issues may be monitored more closely through the "Watch List" process.

Proxy Voting

The Board retains Proxy Voting rights, which are exercised by BAM in accordance with the NYCERS Proxy Voting policy.

Asset Class Objectives:

Trustees review Manager and portfolio performance quarterly. The total U.S. Equity portfolio is expected to marginally outperform the Russell 3000 Index Fund over a full market cycle. Individual Manager performance will be evaluated quarterly and annually in the short-term and over a full market cycle (typically 3-5 years).

Market Sector Allocations

The expected active rate of return is a projected return expected over the next 3- 5 years based upon analysis of the NYCERS general investment consultant.

The US Equity allocations are being reconsidered by the Board at this time. The below reflects the Asset Allocation approved in June 2003 adjusted for a reduction in sub-asset allocation to the active mid-cap sector approved in December 2005. The Board determined in Sept. 2006 to eliminate its allocation to the Enhanced Index asset class and to active large cap investments and also to create a Strategic Equity Investment category. The exact allocation to that class is to be determined. The Board is also re-evaluating its allocation to active small and mid-cap investments.

	Percent of Program (Target)	**Expected Active Return (gross)**
Passive		
Russell 3000	81.4%	0 bp
S&P 500	7.5%	0 bp
Total Passive	**88.9%**	**0 bp**
Active		
Enhanced Index	4.0%	35 bp
Mid Cap	1.9%	100 bp
Small Cap	1.7%	200 bp
Emerging Managers	3.5%	65 bp

Total Active	**11.1%**	**80 bp**
Total U.S. Equity	**100.0%**	**10 bp**

Sector Benchmarks

	Benchmark	Comparison Universe
Passive		
Russell 3000	Russell 3000 Index	None
S&P 500	S&P 500 Index	None
Total Passive		
Active		**Top Half of**
Enhanced Index	S&P 500	TUCS Large-Cap Managers
Mid Cap	Russell Mid-Cap Index	TUCS Mid-Cap Managers
Small Cap	Russell 2000 Index	TUCS Small-Cap Managers
Emerging Managers	Russell 3000 Index	TUCS Large-Cap Managers
Total Active		
Total U.S. Equity	Russell 3000 Index	None

Liquidity:

Managers are expected to be fully invested. Index funds are managed with cash levels below 1%. Active Managers are limited to a maximum 5% cash for trading purposes. As necessary, BAM may direct Managers to sell securities to fund benefit payments and other eligible System expenses, or as otherwise appropriate for rebalancing purposes.

Tobacco Restriction:

On June 16, 1998, the Board adopted a tobacco stock investment policy which provides that, for the U.S. Equity portfolio, index fund Managers are permitted to hold tobacco stocks already in their portfolios. There is no requirement that they divest from tobacco stocks. However, they may not purchase additional tobacco stocks.

Active Managers and enhanced index fund Managers are permitted to purchase and sell tobacco stocks as their investment strategy dictates.

The tobacco restriction only applies to the U.S. Equity portfolio.

2. International Equities – EAFE Markets

Definition and Purpose

EAFE Equity is defined as common and preferred stock of foreign corporations domiciled in developed markets, denominated in foreign currency and traded on foreign exchanges.

Philosophy and Strategy

The EAFE Equity portfolio is structured to capture exposure to the broad non-U.S. Equity market as represented by the MSCI EAFE (Europe, Asia & Far East) Index. The EAFE Equity portfolio is to be diversified across countries, industries, economic sectors and other appropriate investment characteristics.

Historically, over long periods of time EAFE Equity Managers have outperformed the EAFE index adjusted for risk and fees. Therefore, the Board has allocated a larger proportion of the allocation to active Managers.

EAFE Index funds provide broadly diversified market exposure with controlled market risk and minimal cost. The Index fund provides a core EAFE Equity exposure.

Style Allocation:

The EAFE Equity portfolio, in the aggregate, is managed in a style-neutral basis. However, due to the structure of the EAFE index and active Managers' styles, the Fund has a large-cap bias.

Use of External Managers

The EAFE Equity Portfolio is implemented through the use of external Managers. Managers shall be banks, insurance companies, investment management companies, or investment advisers as defined by the Registered Investment Advisers Act of 1940. Managers are selected in compliance with a competitive RFP process designed to identify Managers with demonstrated ability to implement defined mandates. Managers operate subject to a set of detailed investment guidelines developed by the Comptroller's Bureau of Asset Management pursuant to the Board's mandate. The guidelines outline the Managers' individual investment philosophies and approaches, representative portfolio characteristics, permissible and restricted securities, benchmarks and performance objectives. Managers are to be evaluated through a formal annual account review process conducted by the Bureau of Asset Management staff. Managers exhibiting under-performance, personnel turnover and/or other issues may be monitored more closely through the "Watch List" process.

Proxy Voting

Proxies are voted by the Managers.

Asset Class Objectives:

Trustees review portfolio performance quarterly. The total EAFE Equity portfolio is expected to outperform the EAFE index by 160 basis points per year gross of fees over a full market cycle. Individual Manager performance will be evaluated quarterly and annually in the short-term and over a full market cycle (typically 3-5 years).

Market Sector Allocations

The below target active sub-allocations were adopted July 25. 2006. It is recognized that they will not be reached until newly selected EAFE managers are under contract and assets are transitioned to them from current managers.

	Target Sub-Allocations	**Expected Active Return (gross)**
Passive		
EAFE Index	20%	0
Total Passive	**20%**	**0**
Active		
Growth	26.66%	**200 bp**
Core	26.66%	**200 bp**
Value	26.66%	**200 bp**
Total Active	**80%**	**200 bp**
Total EAFE Equity	**100%**	**160 bp**

Sector Benchmarks

	Benchmark	**Comparison Universe**
Passive		
EAFE Index Fund	MSCI EAFE Index	None
Total Passive		
Total Active	MSCI EAFE Index (Core, Growth and Value, as appropriate)	Top Half of TUCS Non-U.S. Equity Managers
Total EAFE Equity	MSCI EAFE Index	None

Liquidity:

The EAFE Equity portfolio is not a source of liquidity for the Fund, although benefits may be paid out of the portfolio as required. Managers are expected to be fully invested. Index funds are managed with cash levels below 1%. Active Managers are limited to a maximum 7% cash for trading purposes. As necessary, BAM may direct Managers to sell securities to fund benefit payments and certain other eligible system expenses, or as otherwise appropriate for rebalancing purposes.

Currency Hedging:

Managers are permitted to hedge a portion of their currency exposure. Hedging may only be used for defensive purposes and not as a form of leverage.

Emerging Equity Markets:

Managers are permitted limited exposure to emerging equity markets.

3. International Equities - Emerging Markets

A. Emerging Markets - General

Definition and Purpose

Emerging Markets Equity is defined as common and preferred stock of foreign corporations domiciled in countries included in the MSCI Emerging Markets Index, denominated in foreign currency and traded on foreign exchanges. It may also include emerging market American Depository Receipts (ADRs) and/or Global Depository Receipts (GDRs) denominated in U.S. dollars.

Philosophy and Strategy

The Emerging Markets Equity portfolio is structured to capture broad exposure to the high growth economies of developing countries. In addition to higher expected returns from this investment, the Fund will also benefit from the low return correlation with the U.S. Equity portfolio.

The Board has adopted an Investable Country policy. The policy is described in Appendix 3B, “Emerging Markets Policy Statement.” The policy provides for a screen of the universe of emerging markets in order to select countries with positive investment attributes, and requires Managers to individually justify investments in companies based in countries excluded by the screen.

Historically over long periods of time Emerging Equity Managers have outperformed the MSCI Emerging Equity Market Index adjusted for risk and fees. Therefore the Board has allocated the entire emerging markets portfolio to active Managers.

Style Allocation:

The Emerging Markets Equity portfolio, in the aggregate, is managed in a style-neutral basis.

Use of External Managers

The Emerging Markets Equity Portfolio is implemented through the use of external Managers. Managers shall be banks, insurance companies, investment management companies, or investment advisers as defined by the Registered Investment Advisers Act of 1940. Managers are selected in compliance with a competitive RFP process designed to identify Managers with demonstrated ability to implement defined mandates. Managers operate subject to a set of detailed investment guidelines developed by the Comptroller's Bureau of Asset Management pursuant to the Board's mandate that outline the Managers' individual investment philosophies and approaches, representative portfolio characteristics, permissible and restricted securities, benchmarks and performance objectives. Managers are to be evaluated through a formal annual account review process conducted by the Bureau of Asset Management staff. Managers exhibiting under-performance, personnel turnover and/or other issues may be monitored more closely through the "Watch List" process.

Proxy Voting

Proxies are voted by the Managers.

Asset Class Objectives:

The Board reviews portfolio performance quarterly. The total Emerging Markets Equity portfolio is expected to outperform an index of countries included in the investable universe under NYCERS' Emerging Market policy index by 150 basis points per year gross of fees over a full market cycle. Individual Manager performance will be evaluated quarterly and annually in the short-term and over a full market cycle (typically 3-5 years).

Market Sector Allocations

	Percent of Program	Expected Active Return (Gross)
Active		
Growth	28%	
Core	27%	
Value	45%	
Total Emerging Markets Equity	**100%**	**150 bp**

Sector Benchmarks

	Benchmark	Comparison Universe
Active	NYCERS Custom Emerging Markets Index	None

Liquidity:
The Emerging Markets Equity portfolio is not a source of liquidity for the Fund, although benefits may be paid out of the portfolio as required. Managers are limited to a maximum 7% cash for trading purposes. As necessary, BAM may direct Managers to sell securities to fund benefit payments and certain eligible system expenses, or as otherwise appropriate for rebalancing purposes.

Currency Hedging:
Managers are permitted to hedge a portion of their currency exposure. Hedging may only be used for defensive purposes and not as a form of leverage.

B. Emerging Markets Policy Statement – Adopted June 26, 2001

In May 2001, the New York City Employees Retirement System (NYCERS) allocated a portion of the System's investments to emerging markets. In making this decision, the NYCERS' Board of Trustees was guided by the principle that a well-diversified portfolio will, over time, add value to the portfolio while reducing overall portfolio risk.

Emerging markets currently represent 85% of the world's population and 22% of its GNP. Over the long-term, these markets are expected to generate attractive returns and grow in importance in the world's economy. These returns, however, are expected to continue to be subject to greater volatility than in more mature economies. Emerging markets often lack the political, social and economic structures necessary for a stable investment environment. Many of these structures, such as legal protections, liquidity and transparency in the securities markets, democratic institutions, including an independent judiciary and a free press, as well as labor rights, worker health, safety, and environmental protections, are still being developed in many emerging market countries.

Accordingly, NYCERS' Board of Trustees has developed this Policy Statement to increase the likelihood that the System's emerging markets investments will generate added value while helping to reduce the higher levels of risk associated with this investment class.

ACTIVE MANAGEMENT

Emerging market countries often suffer from relatively weak democratic institutions, limits on the free flow of information, and political manipulation of financial markets. In addition, informed investment decisions in emerging markets require a significant level of research and monitoring. Therefore, NYCERS has concluded that it would be more effective and prudent to invest in emerging markets through active management pursuant to this Policy Statement.

COUNTRY SCREENS

NYCERS believes that a number of variables should be considered prior to an emerging market country being considered investable. Taken together, these variables would help to define the emerging market investable universe, and to set the parameters for investment in companies that operate in these countries.

The country variables should include:

- Market liquidity and volatility.
- Transparency.
- Market regulation.
- Investor protections/corporate governance.
- Investment restrictions.
- Political stability/rule of law/independent judiciary.
- Economic stability/wealth-income distribution.
- Settlement proficiency.
- Transaction costs.
- Existence and enforcement of worker health & safety protection, labor and environmental statutes/codes at the country level, including ILO Core

Conventions.

The Board utilizes an outside Consultant to develop and implement a screening process to determine the investability of emerging market countries. The list of investable countries will be updated at least annually, and adopted by resolution of the Board. The most recent such resolution is attached to, and forms a part of, this Policy Statement.

Emerging Equity Markets Investment Managers shall only invest in countries determined to be investable pursuant to the rating system, unless the Manager, after due diligence, concludes that substantial, overriding reasons exist for a particular investment. Before making an investment in any emerging market company, a Manager must document that the company being considered for investment implements reasonable health and safety, labor rights, and environmental standards and protections for its workers.

MANAGER SELECTION

In selecting Investment Managers for its emerging markets assets, the Board will consider the ability of Managers to comply with this Policy Statement. The Board will also consider the methods the Managers plan to use to verify compliance, including the use of non-governmental organizations (NGOs) and independent observers. The performance of selected Managers will be evaluated, in part, on their compliance with this Policy Statement.

NYCERS may employ an outside Consultant to help evaluate Managers' compliance with this policy statement and the reasonableness of any investments in companies in countries not on the investable list. Managers will be expected to cooperate and consult with any outside Advisors selected by NYCERS. Managers will be monitored by BAM.

PROXY VOTING AND SHAREHOLDER PROPOSALS

NYCERS has long been active as a shareholder pursuing a wide-range of initiatives on corporate governance and corporate responsibility. To the degree necessary and practicable, such activity should be continued and expanded as part of the Board's decision to invest in emerging markets. NYCERS therefore plans to strengthen its shareholder activity concerning U.S. corporations doing business in emerging markets countries. In particular, this shareholder activity should focus on the implementation of workplace health and safety, labor and environmental standards and protections.

4. Fixed Income: NYC Core +5 Program

Definition and Purpose

Fixed income securities are bonds and other debt securities such as mortgage-backed securities, most paying interest on a current basis. The NYCERS Fixed Income allocation consists of the Core + 5 Portfolio, the Enhanced Yield Portfolio, the TIPS Portfolio, and the Fixed Income portion of the ETI Program. The Core +5 Program is the dominant NYCERS Fixed Income Program, the second largest investment program after U.S. Equity. It is a driver of return and diversification at the total fund level. While the explicit objective is total return, given the fundamental nature of fixed income – relatively predictable income and principal payouts – it also extends the duration of the total fund to better match liabilities, and may be used to provide cash for benefit payments if the portfolio is otherwise within rebalancing ranges.

Most of the securities of the Fixed Income Programs are registered in the U.S. 144 A securities, Global bonds, and Eurodollar bonds may be permitted investments.

Philosophy and Strategy

The Core +5 Program is benchmarked to a customized version of the Citigroup (formerly Salomon Smith Barney) U.S. Broad Investment Grade Index (the “BIG Index”), known as the ***NYC Core +5 Index***. The NYC Core +5 index comprises sub-indices for four sectors: (1) U.S. Treasury and Agency issues excluding one to five-year maturities; (2) mortgage backed securities; (3) U.S. corporate bonds; and (4) Yankee bonds (including Canadians and Supranationals). The total allocation to each sector mirrors that sector’s proportion of the custom NYC Core +5 Index, which is revised by Citigroup monthly to reflect market changes.

The Core + 5 Program is implemented through a sector specialist program, in which Managers are selected for mandates benchmarked to one of the sub-indices. Managers may employ index-like, enhanced index, or active approaches within their sector. Major characteristics of the four sectors are:

- **U.S. Government**: Consists primarily of U.S. Treasury and Agency debt. Does not include mortgage-backed securities. Managers are permitted to invest in Supranationals to a very small degree. Securities of any maturity may be used, provided that the weighted average duration of the portfolio is within a range of -1.0 and +0.5 year of the Citigroup Core +5 Treasury/Government Sponsored Index, which includes only those securities with a maturity in excess of five years. (Amended from +/-0.5 year range as of November 23, 2004).

- **Mortgage-Backed Securities (MBS)**: Consists primarily of Agency mortgage pass-throughs and Agency and non-agency securities collateralized by mortgage pass-throughs. Managers are permitted to invest in certain non-benchmark sectors and security types. Securities of any maturity may be used, provided that the weighted average duration of the portfolio is within 0.75 year of Citigroup's standard Mortgage Index, which includes GNMA, FNMA and FHLMC mortgage pass-throughs. (Amended from +/-0.5 year range as of November 23, 2004).

- **Domestic Corporate**: Consists of debt securities of domestic corporations primarily rated BBB- or higher. Managers are permitted to invest in certain non-benchmark securities to a limited degree, including up to 10% in high yield securities. Securities of any maturity may be used, provided that the weighted average duration of the portfolio is within 0.5 year of the customized Citigroup Domestic Corporate Index, which includes industrial, utility, financial, and asset-backed securities but excludes Canadian and Yankee securities.

- **Yankee**: Consists of U.S.-dollar denominated debt securities of foreign, Canadian, and Supranational entities. Managers are permitted to invest in certain non-benchmark securities to a limited degree, including up to 10% in high yield securities. Securities of any maturity may be used, provided that the weighted average duration of the portfolio is within 0.5 year of the customized Citigroup non-U.S. BIG Index, which includes foreign, Canadian and Supranational securities.

The Program is implemented through the use of external Managers. Managers are selected in compliance with a competitive RFP process designed to identify firms with demonstrated ability to implement defined mandates. Managers operate subject to a set of detailed investment guidelines developed by the Comptroller's Bureau of Asset Management pursuant to the Board's mandate that outlines the Managers' individual investment philosophies and approaches, representative portfolio characteristics, permissible and restricted securities, benchmarks and performance objectives. Subject to constraints contained in guidelines issued by the Comptroller pursuant to Board mandates, value may be added through:

- Duration management, within stated constraints

- Sub-sector weights (within specified ranges of the benchmark weights)

- Security selection, including certain securities/issuers not specifically included in the benchmark

Managers are monitored through the Watch List process.

Asset Class Objectives:

Trustees review Manager and portfolio performance quarterly. The total Core +5 Program is expected to outperform the custom index over a full market cycle, as indicated below. Individual Manager performance expectations vary, as each employs a distinct approach that may be categorized as index-like, enhanced index or active.

Each Manager will be evaluated quarterly, annually and over a full market cycle (typically 3-5 years).

Market Sector Allocations

Core + 5 Program	Percent of Program (as of 3/31/06)	Expected Active Return (gross) over the NYC Core +5 Index
Government +5	20%	
Mortgage-backed	47%	
Domestic Corporate	25%	
Yankee	8%	
Total Core +5	**100%**	**20 bp**

Liquidity and Cash Management:

As a fixed income alternative, cash equivalents (or "*short-term fixed income*") are integral to managing risk in fixed income portfolios through portfolio duration. Fixed Income Managers, unlike the Equity Managers, are given wider latitude to use cash equivalents. Government Sector Managers have no explicit limits on cash; however the relatively long duration requirements for this sector indirectly limit the Managers' use of cash equivalents. Corporate and Yankee Sector Managers are allowed to invest up to 10% in cash. MBS Sector Managers are also allowed to invest up to 10% in cash; however, they may hold significantly more cash to back a widely used MBS instrument ("TBA"). These large cash balances, nonetheless, are not considered an immediate source of liquidity. As necessary, BAM may direct Managers to sell securities to fund benefit payments and certain other eligible System expenses, or as otherwise appropriate for rebalancing purposes.

5. Fixed Income: Enhanced Yield Program

Definition and Purpose

Fixed income is defined as bonds and other debt securities, most paying interest on a current basis. While most securities are registered in the U.S., the NYC Fixed Income Programs allow for use of 144 A securities, Global bonds, and Eurodollar bonds. In the Enhanced Yield Program (traditionally referred to as "high yield," or "non-investment grade"), most securities are denominated in $U.S, while a small allocation is permitted for $Canada-denominated issues. Additionally, deferred-interest securities that do not pay interest on a current basis (such as zero-coupon bonds) are permitted. The high yield sector has equity-like features, including convertible securities, preferred stocks, and warrants. Common stock may appear in traditional high yield portfolios as a result of debt restructuring. The characteristics of the high yield sector may be viewed as a cross between traditional bonds and stocks. The objective of the Enhanced Yield Program is total return. It is the second oldest and second largest fixed income program, with a current policy weight of 5%.

Philosophy and Strategy

The Enhanced Yield Program employs a variety of external Managers with active management approaches. The Program benchmark and the benchmark for most of NYCERS' Managers is the Citigroup (formerly Salomon Smith Barney) BB & B Index. It is a subset of the widely-used Citigroup High Yield Index and excludes securities with ratings of only CCC or lower. The index includes only securities of U.S. and Canadian corporations. As appropriate, an individual Manager's benchmark may be different from the Program benchmark, depending on the Manager's investment approach.

Managers are selected in compliance with a competitive RFP process designed to identify firms with demonstrated ability to implement defined mandates. Managers operate subject to a set of detailed investment guidelines developed by the Comptroller's Bureau of Asset Management pursuant to the Board's mandate that outlines the Managers' individual investment philosophies and approaches, representative portfolio characteristics, permissible and restricted securities, benchmarks and performance objectives.

Subject to guideline limitations (which may vary modestly by Manager due to stylistic differences), value may be added through:

- Industry / sector allocation
- Quality sector allocation
- Security selection, including certain securities/issuers not specifically included in the benchmark, such as convertibles and investment-grade
- However; direct purchase of defaulted securities and securities of bankrupt companies is explicitly prohibited.
- Cash equivalents may be used on a limited basis
- Duration decisions are not expected to be a notable contributor to performance

Managers are monitored through the Watch List process.

Asset Class Objectives:

Trustees review portfolio performance quarterly. The total Program is expected to outperform the Citigroup BB& B Index over a full market cycle by a minimum 125 basis points (gross). Individual Manager performance expectations vary, as each employs a distinct approach. Each Manager will be evaluated quarterly, annually and over a full market cycle (typically 3-5 years).

Liquidity and Cash Management:

The Enhanced Yield Program is not a source of liquidity for the Fund, although, benefits may be paid out of the portfolio as required. Typically, cash equivalents are integral to managing the interest rate risk in fixed income portfolios. However, for high yield, interest rate risk is less of a consideration than for investment-grade bond portfolios like those in NYCERS' main Core + 5 Program. Nevertheless, as the high yield asset class is heavily dependent on new security issuance and may be characterized by extended periods of relative illiquidity (as compared to the U.S. equity market), the Enhanced Yield Managers have been given more latitude to hold cash – the maximum is 8%. As necessary, BAM may direct Managers to sell securities to fund benefit payments and certain other eligible System expenses, or as otherwise appropriate for rebalancing purposes.

6. Fixed Income: U.S. TIPS Program

Definition and Purpose

Fixed income investments consist of bonds and other debt securities, most paying interest on a current basis. In the U.S. TIPS Program, U.S. Treasury Inflation-Protected Securities will be the predominant holding, and most other securities will also be denominated in $U.S. Limited use of inflation linked bonds (ILBs) of foreign developed-market sovereigns will be permitted. The U.S. TIPS Program is the newest NYCERS fixed income program and at 3% is one of the smallest. Its primary purpose is to hedge inflation (as measured by the CPI - U) and, secondarily, to provide diversification.

Philosophy and Strategy

The U.S. TIPS Program will be managed using a combination of index and active management approaches. The policy mix is 25% passive/75% active. The Program and individual Managers' benchmark is the Lehman U.S. TIPS Index, which is comprised of all outstanding TIPS of the U.S. Treasury.

The Program will be implemented through the use of external Managers. Managers are selected in compliance with a competitive RFP process designed to identify firms with demonstrated ability to implement defined mandates. Managers operate subject to a set of detailed investment guidelines developed by the Comptroller's Bureau of Asset

Management pursuant to the Board's mandate that outlines the Managers' individual investment philosophies and approaches, representative portfolio characteristics, permissible and restricted securities, benchmarks and performance objectives. The portfolio of the passive (or index) Manager will mirror the benchmark index with minimal tracking error; value may be added through trading strategies. Subject to constraints contained in guidelines issued by the Comptroller, which may change over time, the active Managers may add value through:

- Duration and yield curve management
- Individual U.S. TIPS weightings that vary from the benchmark
- Use of nominal U.S. Treasury and inflation-indexed U.S. Agency securities
- Use of inflation linked bonds (ILBs) of foreign developed-market sovereigns, however the position must be hedged back to $U.S. Foreign inflation linked corporate and agency bonds are not permitted.
- Cash equivalents may be used on a limited basis

Managers will be monitored through the Watch List process.

Asset Class Objectives

Trustees review portfolio performance quarterly. The total U.S. TIPS Program is expected to exceed the inflation rate and to outperform the Lehman Brothers U.S. TIPS Index over a full market cycle, as indicated below. Individual Manager performance expectations vary, as each employs a distinct approach that may be categorized as index or active. Each Manager will be evaluated quarterly, annually and over a full market cycle (typically 3-5 years).

Market Sector Policy Allocations

U.S. TIPS Program	**Percent of Program**	**Expected Active Return (gross) over the Lehman U.S. TIPS Index**
Active Managers	75%	
Passive (Indexed) Managers	25%	
Total U.S. TIPS Program	**100%**	**55 bp**

Liquidity and Cash Management:

The U.S. TIPS Program is not a source of liquidity for the Fund, although benefits may be paid out of the portfolio as required. As a fixed income alternative, cash equivalents are integral to managing risk in fixed income portfolios through portfolio duration. Active Fixed Income Managers, unlike Equity Managers, are given wider latitude to use cash equivalents. The U.S. TIPS Passive (Indexed) Manager will be permitted to hold up to 2% cash and the Active Managers, up to 20%.

7. Alternative Investments - Policy adopted September 23, 2003 and last amended September 26, 2006

Purpose of Alternative Investments Policy

The purpose of the Alternative Investments Policy (the "Policy"),appended hereto as Appendix 3 and made a part of this overall investment policy by reference, is to establish the parameters by which the System may invest through its Alternative Investments Program (the "Program"), to ensure that the Managers, Advisors, Consultants and other external resources retained by the System adhere to the investment principles and guidelines of the Board, and to preserve the flexibility necessary to accomplish its mandates and maximize risk adjusted returns.

This Policy, as of its adoption date, superseded the Targeted / Alternative Investments Investment Policy Statement of the System, as last modified on May 22, 2001 (the "2001 Policy").

Objectives of Alternative Investments

The System has mandated investments in Alternative Investments in general, and the private equity asset class in particular:

- To increase the diversification of its assets.
- To take advantage of the ability to accept illiquidity in the short term in exchange for an illiquidity premium.
- To provide an opportunity to invest in securities with a relatively low correlation with the performance of the public markets.
- To take advantage of quality Managers who are able to transform the asymmetries of information and high transaction costs which characterize the market for Alternative Investments into excess returns.
- To reduce the volatility and increase the risk-adjusted returns of the overall portfolio of the System.

The System also expects that investments in Alternative Assets will improve the reputation of the System as an investor, and that the System will make both continuous use of and contributions to the best practices of investors in Alternative Investments. NYCERS will seek investments in which the proposer demonstrates a commitment to standards of good conduct, including compliance with all Federal, State and local laws. These laws include, but are not limited to, labor, anti-discrimination, environmental, and health and safety laws. NYCERS will reject investments that would embarrass investors or bring public or regulatory scrutiny. NYCERS also encourages the submission of proposals from proposers that demonstrate a strong commitment to diversity in their firms.

Alternative Investments are non-traditional investments made with the objective of achieving returns that are greater than those earned in the traditional public equity and debt markets. Alternative asset class components may be broadly categorized as (1) non-marketable, illiquid assets, and (2) marketable, liquid securities managed in a nontraditional format. Special debt, private equity (including venture capital), real-estate-related investments, oil and gas, as well as timber, are examples of non-marketable assets. Risk arbitrage, commodities and derivatives are examples of the more liquid alternative asset types.

The operation of the Program is subject to the exclusive benefit rule and all other applicable laws, including requirements of prudence.

Asset Allocation

The asset allocation study conducted in 2003 authorized a 5% market value exposure to private equity and the Board of Trustees recognizes it will take years to achieve this goal. As commitments to private equity partnerships are drawn over time, they necessarily must exceed the target market value exposure in a mature portfolio.

Strategy Allocation

Corporate finance 55-70%
Venture capital 15-20%
International 10-15%
Other (mezzanine, distressed, secondaries, etc.) 10-15%

8. Real Estate Investments

A. Real Estate Investment Policy – Adopted April 26, 2005 and last amended on October 24, 2006

Purpose of Real Estate Investment Policy

The purpose of the Real Estate Investment Policy (the “Investment Policy”) for

NYCERS, appended in its entirety as Appendix 4 hereto, and made a part of this overall Investment Policy Statement by reference, is to establish the parameters by which the Fund may invest through its Real Estate Program (the “Program”), to ensure that the Managers (which term collectively refers to and includes, but is not limited to, “principals,” “managing members,” “general partners,” “sponsors,” “advisors,” and “proposers”), and the Consultant and other external resources retained by the Fund, adhere to the investment principles and guidelines of the Board of Trustees (the “Board”), and to preserve the flexibility necessary to accomplish the objectives of the Program.

Objectives of Real Estate Investments

Consistent with the strategy approved by the Board, the role of real estate investments made through the Program is:

- To enhance the diversification of the Fund’s investments through the historically low or negative correlation between real estate and other financial asset classes;
- To provide competitive risk-adjusted returns relative to other asset classes;
- To serve as a hedge against inflation;
- To emphasize long-term income returns.

Domestic private market equity real estate possesses the best attributes to meet the role defined for the Program.

The Fund also expects that commitments to and investments in the real estate asset class will improve the reputation of the Fund as an investor, and that the Fund will make both continuous use of, and contributions to, the best practices of investors in real estate. The Fund will seek investments in which the proposer demonstrates a commitment to standards of good conduct, including compliance with all Federal, State and local laws, including, but not limited to, labor, anti-discrimination, environmental, and health and safety laws, and will reject investments that would bring public or regulatory scrutiny. The Fund encourages the submission of proposals for review from proposers that demonstrate a strong commitment to diversity in their firms.

The operation of the Program is subject to the exclusive benefit rule and all other applicable laws, including requirements of prudence.

Asset Allocation

Pursuant to a 2003 asset allocation study performed by the Fund’s general consultant, Callan Associates Inc., the Board has adopted an allocation to private market real estate of six percent (6%) of the market value of the total investable assets of the Fund. The Board recognizes that it will take several years to achieve this market value exposure. Because commitments in connection with the Program are drawn down over time, such commitments at any particular time may exceed the target market value exposure in a mature Program.

<u>Strategy Allocation</u>

The categories and allocation ranges by investment style sector will initially be:

Stable Return: 60%-80%
Enhanced Return: 10%-40%
High Return: 0%-30%

B. Responsible Contractor Policy - Real Estate – Adopted September 9, 1998

I. Introduction

This policy is being presented should the New York City Employees' Retirement System (NYCERS) choose to make a direct investment in real estate. NYCERS has a deep interest in the condition of workers employed by the Fund and its Advisors. The Trustees support fair wages and benefits for all workers and other service providers doing business with the Fund either directly or indirectly.

The Fund supports many of the ideals espoused by labor unions. The fund believes that a diverse adequately compensated and trained worker delivers a higher qualify product and service.

II. Definitions

A Responsible Contractor, as used in this Policy, is a contractor or subcontractor who pays workers fair wages and benefits as evidenced by payroll and employee records. "Fair benefits" may include, but are not limited to, employer-supported family health care coverage, pension benefits and apprenticeship training programs. What constitutes "fair wages and "fair benefits" depends on the wages and benefits paid on comparable real estate projects, based upon local market factors, that include the nature of the project (e.g., residential or commercial; public or private), comparable job or trade classifications, and the scope and complexity of services provided.

III. Initial Requirements

A. <u>Duty of Loyalty</u>: Notwithstanding any other considerations, assets will be managed for the exclusive benefit of plan participants and beneficiaries.

B. <u>Prudence</u>: The Trustees, Staff and Advisors are charged with the fiduciary duty to exercise the care, skill prudence and diligence appropriate to the task.

C. Competitive Return: All investments and services must be made and managed in a manner that produces a competitive, risk adjusted rate of return.

D. Local, State, and National Laws: Throughout the market in which they operate, all Advisors and their subcontractors shall observe all local, state, and national laws (including by way of illustration those pertaining to insurance, withholding taxes, minimum wage, occupational health and safety, and the right to organize unions).

IV. Administration and Monitoring-Real Estate Contractor Selection Process

Policies and procedures will be established outlining the duties and responsibilities of the staff, Consultants, Managers, attorneys, etc. once NYCERS makes the decision to invest in direct real estate ownership. NYCERS will employ real estate Managers through an appropriate competitive process in compliance with Procurement Policy Board Rules. NYCERS and its real estate Managers, when seeking bids for construction, maintenance or other services, shall notify and actively seek bids from qualified contractors certified as M/WBEs by the City's Department of Business Services or otherwise certified as minority/women owned business enterprises by a governmental entity in the local market in which the contractor operates, and shall award contracts only to responsible contractors. Contractors who do not pay fair wages and benefits, or which have a history of non-compliance with federal, state, or local laws regulating employment or labor relations, will not be considered a responsible contractor.

9. Economically Targeted Investment Policy – Adopted July 26, 2005

Purpose of Economically Targeted Investments Policy

The purpose of this Policy, appended hereto as Appendix 5 and made a part of the overall NYCERS IPS by reference, is to establish the parameters by which NYCERS may invest through its Economically Targeted Investments (“ETI”) Program (the “Program”). ETIs are investments in a variety of asset classes that generate rates of return commensurate with the overall risk, liquidity, security and structure of comparable non-targeted investments while providing collateral economic benefits (benefits that enhance quality of life and promote economic development and activity) to the targeted areas. ETIs address capital gaps, thereby promoting the quality of life, growth and economic development in the targeted areas. For the purpose of this Policy, targeted areas are defined as the five boroughs of New York City.

Objectives of Economically Targeted Investments

The System has mandated investments in Economically Targeted Investments:

- To achieve competitive returns commensurate with the risk, liquidity and structure of the investment,,

- To provide collateral economic benefits for the Targeted Areas.

- To address market inefficiencies in the Targeted Areas, and in particular capital gaps that affect the low-, moderate- and middle-income neighborhoods and populations of the Targeted Areas,

- To promote economic development and attract additional investment in the Targeted Areas,

- To increase the diversification of its assets, and

- To reduce the volatility of the overall portfolio of the System

The System also expects that investments in ETIs will improve its reputation as an investor. The System will make both continuous use of and contributions to the best practices of investors in ETIs, including rigorously applying the standard of valuing the achievement of risk-adjusted, market rates of return above the achievement of any collateral results. NYCERS will seek investments in which the proposer demonstrates a commitment to standards of good conduct, including compliance with all Federal, State and local laws, These laws include, but are not limited to, labor, anti-discrimination, environmental, and health and safety laws, and any of the stated policies of NYCERS. NYCERS will seek to avoid investment programs that at the time commitment to the investment or investment program is made by the Trustees, the Trustees reasonably believe would likely (i) embarrass the Investor or (ii) generate public or regulatory scrutiny greater than that which is required by law or regulation to consummate the investment. NYCERS encourages the submission of proposals from proposers that demonstrate a strong commitment to diversity in their firms.

The operation of the Program is subject to the exclusive benefit rule and all other applicable laws, including requirements of prudence and will be operated in accordance with 29 CFR 2509.94.1.

Asset Allocation

ETIs may include a variety of asset classes, where practical and consistent with the standards in this and other policies. The System will seek to achieve a target allocation of 2% of assets to ETIs, by setting a target of 6% for the fixed-income asset class and a target of 2% for the private equity and real estate asset classes respectively.

10. Securities Litigation Protocol – Amended March, 2005

I. Overview

The recent revelations of corporate fraud and other misdeeds that have resulted in significant losses to shareholders, and the ensuing litigation, have underscored the need for an internal set of policies and procedures to guide the New York City Employees' Retirement System ("NYCERS") in identifying, evaluating and ultimately managing securities litigation. NYCERS Board of Trustees is increasingly being presented with potential cases by the class action bar and a set of established procedures will help facilitate NYCERS' Board of Trustees decision-making process and ensure that NYCERS Board of Trustees is pursuing active involvement in cases when it is in its best interests to do so. Across the country, pension funds have started clearly identifying their objectives in pursuing actions and are becoming more proactive in identifying these claims themselves and reducing their reliance on the class action bar. They are also looking at other ways to participate actively in securities class actions. In addition, many pension funds are employing a two-tiered approach to their use of counsel; i.e., they are expanding their counsel pool and are engaging counsel to help in the evaluation of claims. Thereafter, they engage separate counsel to represent them in the litigation, if they decide to proceed. This process provides additional resources and expertise in the evaluation process while ensuring the resulting recommendations are as unbiased as possible.

II. Objectives

NYCERS' Board of Trustees objectives in choosing an active role in securities litigation include the following:

a. Preservation of plan assets and collection of all amounts due to NYCERS;

b. Maximizing the net recovery to NYCERS in individual actions and class actions; and

c. Effecting corporate governance reforms, when appropriate.

Out of the enormous volume of securities cases being filed, NYCERS Board of Trustees will consider those where the amount of loss sustained by NYCERS and attributable to some type of wrongdoing is of a magnitude to justify the time, expense and effort involved in being lead plaintiff in a class action or in filing an independent action either in state or federal court, or in pursuing some other litigation alternative. The Law Department as NYCERS' legal representative and the Comptroller's Office as its investment advisor will work together in the best interests of NYCERS to recommend those cases best suited for NYCERS' active participation.

III. Retention of Counsel

On an as needed basis, Requests for Proposals ("RFPs") shall be issued by the Law Department, as counsel to NYCERS , to retain a pool of law firms who will be available to act as evaluation or litigation counsel. Retention of a pool of law firms will permit two or more pool members to serve as an evaluation team on a rotating basis ('Evaluation Team') while allowing for an expanded number of firms to be available to act as litigation counsel. Each firm selected must have a recognized expertise in the area of securities litigation. Special attention will be paid to experience in class actions, especially under the Private Securities Litigation Reform Act ("PSLRA"), experience as counsel to other institutional investors (preferably other public pension funds), a demonstrated understanding of the special responsibilities of a public fund trustee and how public employees' retirement systems function, as well as experience with corporate governance reforms.

The Evaluation Panel, which will be established for each RFP and identified to the Trustees, shall evaluate each firm that responds to the RFP based on criteria set forth in the RFP. Following an evaluation of the content of the proposals by the RFP Evaluation Panel, the Law Department will provide the Trustees with a report which sets forth: 1) the evaluation criteria and weighting as established in the RFP, 2) the names of the firms that respond to the RFP, 3) the pre-interview ratings of all responding firms, and 4) the names of all firms determined to be eligible for consideration and invited to interview. Trustees will be afforded the opportunity to review and comment on the report prior to the interview process. The Law Department will advise the Trustees of the date, time and place each firm will be interviewed and will make such interviews open to any Trustee to attend. Subsequent to the interviews, the Law Department will issue a memorandum with the Evaluation Panel's recommendations for which law firms should be retained for the pool. The Trustees will be afforded an opportunity to comment on the recommended pool.

IV. Identification of Potential Cases

The first step in this process is to identify those cases or claims ("potential cases") that would warrant NYCERS' active involvement in securities litigation. Early identification of potential cases will allow the Law Department and the Comptroller's Office more time to analyze each case and recommend strategies, and allows NYCERS Board of Trustees more time to respond to any such joint recommendations. To meet this goal, NYCERS Board of Trustees, along with the other New York City and Related Pension Funds ("the Funds") have engaged an outside data consultant ("Consultant"). The Consultant can better monitor new case filings, and follow the financial news as well as the activities of government agencies such as the SEC. The Consultant will use the data from the custodial bank, current and past, for the five Funds in order to compute loss estimates. The Consultant should be able to provide the Law Department and the Comptroller's Office with loss estimates for each Fund within days of a federal securities class action being filed, early enough in the 60-day statutory time period for filing a lead plaintiff motion to allow for careful analysis of potential cases by the Law Department and the Comptroller's Office and a thoughtful consideration by NYCERS Board of Trustees of any recommendations from the Law Department and the Comptroller's Office.

V. Review and Analysis of Potential Cases

A two-tiered approach, involving Evaluation Counsel and Litigation Counsel, will be used to expedite the review and analysis of potential cases. After a reasonable time period, this approach will be evaluated and, if necessary, modified.

A. Evaluation Team

Absent exceptional circumstances, Evaluation Team members will not be eligible to serve as Litigation Counsel on any matter they have evaluated without prior approval of the Board of Trustees, thus removing the financial incentives that might bias a firm's recommendation to pursue litigation.

The Law Department will utilize a data consultant's services, as described in Section IV of this Protocol and any other sources available, to preliminarily identify potential cases worth further investigation on behalf of NYCERS. The Evaluation Team, in conjunction with the Law Department and the Comptroller's Office, will review cases given to them by the Law Department to evaluate potential securities litigation claims, and make recommendations to the Law Department and to the Comptroller's Office on ways to best protect the interests of NYCERS . The Evaluation Team will also perform additional due diligence on claims (i.e., contact counsel for both sides; review complaints, SEC filings and company disclosures; examine contents of relevant internal files; interview investment staff, and contact other investors as appropriate).

Each Evaluation Team for a particular case will provide the Law Department with a written evaluation of that case including an opinion as to what, if any, action would be in the best interests of NYCERS and why. The memorandum will evaluate options available to protect NYCERS' interests. Options may include doing nothing, filing for lead plaintiff status or actively participating in ways other than becoming lead plaintiff.

These other types of active participation may include: attempting to get a claimant with larger losses to become lead plaintiff; monitoring the case from the sidelines; writing a letter to the court and/or lead counsel to bring up issues being ignored; filing a motion to support or oppose a particular lead plaintiff or lead counsel candidate; filing a notice of appearance and more actively monitoring the case; attempting to negotiate an agreement with prospective lead counsel that will require them to keep NYCERS Board of Trustees informed of case developments; provide NYCERS Board of Trustees with access to discovery upon request and allow NYCERS Board of Trustees to participate in settlement negotiations or be consulted on a settlement; waiting until settlement and reviewing the settlement carefully with the option to object to a poor settlement or excessive fees; opting out of the class to file a separate action; or bringing a derivative action. The memorandum should also discuss the most advantageous means of bringing a suit; i.e., individual federal action or federal class action, state law individual action or derivative action.

B. Joint Recommendation to NYCERS Board of Trustees from the Law Department and the Comptroller's Office

The Law Department will consult with each Evaluation Team member and will fully analyze all relevant legal issues. The Law Department, in conjunction with the Comptroller's Office, might consider, among other things, the following in issuing a recommendation to the Trustees:

a. What was the alleged wrongdoing? What are the legal claims?

b. What is the degree to which NYCERS Board of Trustees is offended by the wrongdoing?

c. What is the amount of NYCERS' loss and the Funds' losses collectively?

d. What are the defenses? What are the merits of the case? Is NYCERS likely to prevail?

e. Are the losses collectible? What is the defendant's financial condition? Are insurance carriers involved? How many defendants will there be?

f. Will there be other consequences if NYCERS wins or loses? For instance, will success bankrupt the company or adversely affect other investments that NYCERS has in the same company?

g. Are there others who are more appropriate to serve as lead plaintiff? (In which case, NYCERS may defer to them or seek to join them as co-lead plaintiff.)

h. What economic and administrative costs will be involved? (Typically, all out-of-pocket costs should be advanced by Litigation Counsel who accepts the case on a contingency basis.)

i. Does NYCERS have a separate claim which is not covered by the class complaint or are there unusual facts that suggest a benefit to independent non-class litigation?

j. Would failure in the litigation adversely affect NYCERS? For example, might the litigation result in the disclosure, subject to a protective order, of material non-public information about the company that could interfere with NYCERS' future anticipated trading strategy? Are there other possible adverse consequences?

k. Does NYCERS have time to interact with legal counsel and make decisions as required?

l. Should NYCERS Board of Trustees and the other Funds consider seeking to serve as co-lead plaintiff with other parties?

m. Is the suit a nuisance suit? Should NYCERS Board of Trustees consider supporting the company in a motion to dismiss?

n. Are there any potential conflicts with other members of the class?

o. Is there a need for corporate governance changes? Are there individual actors that need to be pursued to deter future wrongdoing?

The Law Department, in conjunction with the Comptroller, will then make a written recommendation to NYCERS Board of Trustees whether or not to pursue a particular case. If time permits, such a recommendation would be presented in person by representatives of both the Law Department and the Comptroller's Office who would be available to answer questions the Trustees may have. Should the Law Department and the Comptrollers' Office disagree as to the recommendation, a memorandum shall be submitted by each to explain its position. The Law Department shall be responsible for soliciting and obtaining the Comptroller's Office's memorandum to present to the Trustees, along with the Law Department's recommendation. The NYCERS Board of Trustees will make the final determination on how to proceed.

C. Litigation Counsel

Litigation Counsel will be selected after NYCERS Board of Trustees has made a decision to pursue an active role in litigation. Litigation Counsel will be selected by the Law Department based on, among other things, suitability for a particular matter (including, for example, their expertise in the jurisdiction in which a case is being brought and expertise in the particular type of suit). For each case approved by NYCERS, the Law Department will invite pool members, who did not serve as members of the Evaluation Team for that case, to submit written proposals for handling the litigation. The proposal will focus on the litigation factors discussed in Section V.B of this Protocol and propose the most appropriate strategy for conducting the litigation. The proposal will also include a fee schedule. Selection of counsel for any given case will be based on an evaluation of the litigation strategy proposed, the suggested fee and the expertise and resources of the firm. Thus, increasing the size of the pool will also increase competition regarding the fee to be charged against any recovery by the Class.

Should NYCERS Board of Trustees decide to participate in an appropriate case being litigated by a firm outside the pool, NYCERS Board of Trustees shall not be precluded from entering the case and utilizing that firm.

VI. Interaction with NYCERS

The Law Department will issue a report by the 15th of each month to NYCERS Board of Trustees, which will include significant potential cases being evaluated as well as the status of pending securities litigation. NYCERS Board of Trustees will make the final determination on how to proceed with a particular securities law case. In the event that there is disagreement amongst the Funds with regard to a particular course of action, NYCERS Board of Trustees may wish to consider acting independently.

The Comptroller's Office shall submit to the Trustees and to the Law Department, on at least a quarterly basis, a report on the status of proofs of claim in securities litigation matters. This report shall include for each claim the class period or other claim filing period, and, if applicable, the date that the Custodian filed such proof of claim on behalf of the Fund and the date the payment was received.

The Law Department shall designate a contact attorney for Trustees to contact for information regarding securities litigation.

NYCERS' Counsel shall serve as liaison between the Trustees and the Law Department in order to keep the Trustees advised on securities litigation issues, provide written opinions to the Trustees and convene voice votes and/or special meetings in accordance with the Rules and Regulations of the Fund. NYCERS' Counsel shall be included in meetings with and on the distribution list for the Evaluation and Litigation Counsel and shall review any joint recommendations from the Law Department and the Comptroller's Office after such recommendation is made to the Trustees whether or not to pursue a particular case as described in Section V.B of this protocol. NYCERS' Counsel shall also review the Law Department's monthly litigation report to the Trustees once it is issued. The Consultant will use the data from the custodial bank, current and past, for the five Funds in order to compute loss estimates. The Consultant should be able to provide the Law Department and the Comptroller's Office with loss estimates for each Fund within days of a federal securities class action being filed, early enough in the 60-day statutory time period for filing a lead plaintiff motion to allow for careful analysis of potential cases by the Law Department and the Comptroller's Office and a thoughtful consideration by NYCERS Board of Trustees of any recommendations from the Law Department and the Comptroller's Office.

11. Proxy Voting Procedures

In fulfilling the Proxy Voting Policy of the Board, the following procedures shall be used.

Each year, the Proxy Committee, on behalf of the Board, reviews the Comptroller's recommendations for shareholder proposals and target companies, and decides which proposals and companies will comprise NYCERS' annual shareholder proposal program. The committee considers the Comptroller's recommendations for voting proxy issues that are not covered by NYCERS' proxy voting policies and procedures and, on behalf of the Board, promulgates voting policies and procedures on such issues.

The Chair, or the Office of the Comptroller with notification of the Chair, shall call all committee meetings. If time does not allow a meeting to be called, the Chair or the Office of the Comptroller shall set up a conference call among the committee members and the Comptroller's staff. If a conference call is not feasible, the Chair or the Comptroller's Office shall conduct a telephone poll of committee members. If a Trustee is not available his/her vote shall be recorded as an abstention.

In voting proxies, the Comptroller shall follow the following guidelines:

Vote Action – For Proposal

The Comptroller shall vote FOR a proposal if such proposal is consistent fully with the provision(s) stipulated in the resolutions/policies promulgated by the NYCERS Proxy Committee.

Vote Action – Against Proposal

The Comptroller shall vote AGAINST a proposal if such proposal is inconsistent with, or contrary to, the philosophy, intent and spirit of resolutions/policies promulgated by the NYCERS Proxy Committee.

Vote Action - Abstain

Absent enabling NYCERS resolutions/policies and past history, or the availability of adequate information, the Comptroller shall ABSTAIN. If time does not permit the Comptroller's Office to present to the Proxy Committee, for its review and voting decision, a proposal with voting-policy recommendation and adequate background information, the Comptroller shall ABSTAIN.

Review of New Issues

Each spring, the Comptroller's Office and the Proxy Committee shall meet to review new proxy issues. The Proxy Committee may review and revise existing policies and procedures.

Proposal not Covered by Existing Board Resolution – Time Permitting

If time permits, the Comptroller shall present to the Proxy Committee, for review, deliberation and vote decision, proposals pertaining to issues which are not covered by past practice or existing policies. To facilitate this process, the Comptroller's Office shall provide the Board the full text of such proposals, supporting and opposing statements, and other available background information that would represent fairly the views of proponents and opponents of issues.

Proposal not Covered by Existing Board Resolution – Time Limited

In the event that the distribution of proxy statements is delayed through corporate, postal, or other setback, particularly as it relates to issues not covered by past practice or existing policy, the Comptroller's Office or the Chair shall conduct a telephone conference call of the members of the Proxy Committee and the Comptroller's Staff and obtain the votes of the members on the proposal). If a conference call is not feasible, the Chair or the Comptroller's Office shall conduct a telephone poll of committee members. The Comptroller's Office shall be guided by the consent of a simple majority. In the event of a deadlock, the Comptroller's Office shall abstain.

Mergers and Acquisitions

In voting on proposed mergers and acquisitions, the Comptroller's Office shall consult Investment Managers of NYCERS' accounts in which shares of the stocks of companies involved in a proposed transaction are held. The Comptroller's Office shall be guided by the analyses and recommendations of the majority of Investment Managers. However, in so doing, the Comptroller's Office shall determine whether the analyses examined salient features, including but not limited to: whether a transaction represents a premium to the company's trading price; whether there are compelling business reasons for a proposed merger or acquisition; whether the boards of both companies are in agreement on a proposed transaction; whether shareholder interests and rights are protected; and whether the companies obtained, and the proposal included, a fairness opinion of a reputable financial Advisor.

Reports to the Trustees

The Comptroller's Office shall submit annual reports to the Proxy Committee on the results of the NYCERS shareholder proposal programs, and on votes cast by the Comptroller's Office against management director nominees.

Investment Policy Statement

New York City Employees' Retirement System

2006 Amended Version

Appendices 2 thru 6

THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF ASSET MANAGEMENT
1 CENTRE STREET
NEW YORK, N.Y. 10007-2341

WWW.COMPTROLLER.NYC.GOV

WILLIAM C. THOMPSON, JR.
COMPTROLLER

New York City Retirement Systems: Ethics and Compliance Policy

I. Purpose of the Policy

The New York City Retirement Systems (the "Systems"), in furtherance of the management and investment of the assets of the Systems, have determined to establish a comprehensive written Ethics and Compliance Policy (the "Policy") for investment consultants (the "Consultants") and for investment managers (the "Managers") that do or seek to do business with the Systems. The Boards of Trustees of the Systems (the "Boards") have requested that the Bureau of Asset Management ("BAM") of the New York City Office of the Comptroller implement the Policy on behalf of the Systems.

The purposes of the Policy are:

- to identify and ensure disclosure of any potential risk, conflicts of interest and/or other ethical issues both before and after entering into contracts or transactions with the Consultants' and the Managers' firms;
- to ensure that proper internal compliance controls are in effect at the Consultants' and Managers' firms, so as to reduce the risk to the Systems;
- to provide a protocol for ensuring that Consultants and Managers are in compliance with the federal securities laws and the rules of the U.S. Securities and Exchange Commission ("S.E.C."), and other applicable law;
- to obtain timely disclosure from the Consultants and the Managers as to actual or alleged non-compliance with the Consultants' and the Managers' internal controls or with applicable law; and
- to assist BAM and the Systems in identifying and responding to non-compliance on the part of any Consultant and/or Manager.

BAM will not recommend continuation of or selection of any Consultant or Manager which does not meet the standards of compliance with this Policy. In addition, a Consultant or Manager which discloses a conflict of interest or other violation of this Policy to BAM must refrain from giving advice or making decisions about any matters affected by the conflict of interest or other violation of this Policy, until and unless authorized by the Board.

II. Annual Certification Obligation of Consultants and Managers

Annually, on or before June 15th of each year, Consultants and Managers shall submit an Annual Certification and Compliance Statement (the "Annual Statement") to BAM, which Annual Statement shall, in addition to providing an update on conflicts of interest, include a certification in the form attached hereto, in which the Consultant or Manager makes the following representations: 1) that the Consultant or Manager is a fiduciary of the Systems; 2) that the Consultant or Manager has received and read this Policy; 3) that the Consultant or Manager is in full compliance with the Policy, except as disclosed in the Annual Statement; 4) that the Consultant or Manager is in full compliance with any other applicable policies and procedures of the Systems that apply to such Consultant or Manager, except as disclosed therein; and 5) that the Consultant or Manager is in full compliance with all applicable laws and regulations.

In addition to the above certification, Consultants and Managers, in their Annual Statements, must disclose all information specified in sub-sections A and B below. Although the firm's Form ADV or other S.E.C. filings may be provided as a supplement; the firm must make full and complete disclosure in the body of the Annual Statement itself.

A. Conflicts

A conflict of interest exists for a Consultant or Manager whenever the Consultant or Manager has a direct or indirect pecuniary interest or a relationship (without regard to whether the relationship is direct, indirect, personal, private, commercial, or business) with a third party, and the interest or relationship could diminish the Consultant's or the Manager's independence of judgment in the performance of the Consultant's or the Manager's responsibilities to the Systems.

Consultants and Managers must promptly disclose conflicts of interest in writing to BAM, which shall promptly disclose such conflicts to the Systems for review.

1. Relational Conflicts, Generally

a) Each Manager/Consultant is required to include a written statement to BAM specifying its affiliates and the lines of relationship between itself and said affiliates, their lines of business, and whether affiliates have any role in the investment process related to the Systems.

b) Each Manager/Consultant must also disclose to the Systems at least annually any actual or potential conflicts of interests between the Manager/Consultant (including its affiliates) and the Systems, such as with respect to: i) investment of the Systems' assets in investment vehicles marketed or managed by the Manager/Consultant or affiliates; ii) allocation of investment opportunities as between the Systems and either the Manager/Consultant, affiliates or other clients; or iii) use, on behalf of the Systems, of services provided by affiliates, such as brokerage or auditing services. Managers/Consultants must also immediately notify BAM of any additional such conflicts that have arisen since the last Annual Statement.

c) Managers/Consultants must also report to the Systems the procedures in place to prevent such conflicts and/or mitigate their effects should they occur; and to the Manager's/Consultant's policy in relation to the allocation of investment opportunities among its affiliates, between itself and outside clients, and also among outside clients.

2. Compensation Conflicts

a) Managers/Consultants must disclose to the Systems all matters, including beneficial ownership of securities or other investments that reasonably could be expected to interfere with their duty to the Systems or with their ability to make unbiased and objective decisions in the investment of the Systems' assets. Managers/Consultants must also promptly notify the Systems of any additional such matters that have arisen since the last Annual Statement.

b) Managers/Consultants must also disclose to the Systems:

> i) all monetary compensation or other benefits that are in addition to compensation or benefits conferred by the Systems, and that they, their affiliates or their personnel have received or may receive for any services performed or to be performed that relate in any way to assets of the Systems, including services for "portfolio companies" of the Systems (those companies whose securities the Manager holds on behalf of the Systems, other than in an index fund);
>
> ii) any referral fees or other consideration or benefit received by the Manager/Consultant or delivered to others for the recommendation of any services to the Systems; and
>
> iii) the full details of any services for portfolio companies of the Systems that the Manager/Consultant has undertaken, performed, or agreed to perform.

c) Managers/Consultants must also promptly notify the Systems of any additional such compensation or benefits or earned, received or agreed, or services undertaken, performed, or agreed to, to since the last Annual Statement.

3. Conflicts Relating to Systems' Other Advisors

a) Managers must disclose whether any Consultant is an affiliate of the Manager. Consultants must disclose whether any Manager is an affiliate of the Consultant. Affiliate for this purpose includes a parent, subsidiary, debtor, creditor, entity under common ownership, entity in which the Manager/Consultant has invested or which has an investment in the Manager/Consultant or entity with which the Manager/Consultant has a strategic alliance. If yes, the Annual Statement must include a detailed description of the nature of the affiliation.

b) Managers must further disclose whether in the past five years, the Manager or any affiliate of the Manager has paid any compensation to any Consultant, or entered into any agreement with any Consultant, under which the Manager or any affiliate of the Manager may pay compensation in the future. Compensation for this purpose means any payment, product or service, and includes, but is not limited to, conference registration fees, research or consulting fees, and brokerage commissions, paid either directly or through soft-dollar arrangements. If so, the Annual Statement must, with respect to each and every such Consultant, describe in detail:

(i) the full name of the Consultant;

(ii) the amount(s) of the compensation;

(iii) the year(s) in which it was paid;

(iv) the purpose of the compensation; and

(v) the terms of the agreement.

c) Consultants must further disclose whether in the past five years, the Consultant, or any affiliate of the Consultant, has paid to or received from any Manager any compensation, or has entered into any agreement with any Manager, under which the Consultant or any affiliate of the Consultant may pay or receive compensation in the future. Compensation for this purpose means any payment, product or service, and includes, but is not limited to, conference registration fees, research or consulting fees, and brokerage commissions, paid either directly or through soft-dollar arrangements. If so, the Annual Statement must, with respect to each and every such Manager, describe in detail:

(i) the full name of the Manager;

(ii) the amount(s) of the compensation;

(iii) the year(s) in which it was paid;

(iv) the purpose of the compensation; and

(v) the terms of the agreement.

d) Consultants must further disclose:

(i) whether they have any arrangements with broker-dealers under which they or an affiliate will benefit if any Managers place trades for the Systems with such broker-dealers, and if so, must disclose the full details of those arrangements; and

(ii) what percentage of their public pension plan or ERISA clients utilize investment managers, investment funds, brokerage services or other service providers from whom the Consultant or any affiliate receives fees.

e) Managers that have "soft dollar" arrangements with broker-dealers must further disclose whether, in connection those arrangements, they have received any of the following three categories of compensation from any broker-dealer in the past twelve months, and if so, must disclose in detail what they received in those three categories, and from whom

(i) physical or tangible items, such as computer hardware and accessories, phone lines or office equipment;

(ii) payment of travel expenses or meals or entertainment associated with attending seminars; or

(iii) software or consultant services that relate primarily to a Manager's internal management or internal operations.

<u>B. Compliance with Law</u>

Managers and Consultants, as applicable, shall further certify compliance with, and provide any disclosures required by, the following:

<u>1. Managers/Consultants Must Have a Code of Ethics.</u>

Every Manager/Consultant must have a Code of Ethics that satisfies the requirements of Rule 204A-1 under the Investment Advisers Act, regardless of whether the Manager/Consultant is required to register under that Act.

2. Managers/Consultants Must Have Third-Party Review of Controls.

a) Each Manager/Consultant must certify that it has a periodic review of its Compliance Manual and compliance controls by an independent third-party at least once every three years. Internal review by the General Counsel, Chief Compliance Officer, or similar official of the firm or any of its affiliates does not qualify as an independent review. If the Manager/Consultant has not yet completed an independent third-party review, the first review must be completed no later than June 2008. However, Managers/Consultants first entering into contract(s) with the Systems after June 2005 must complete their first such review no later than 3 years from the date of the initial contract with the Systems. Should any third-party review identify any deficiencies in the compliance controls or Compliance Manual, the firm must provide to BAM a copy of the third-party's report and an explanation of any remedial actions taken or planned.

b) In addition to the third-party review of the Compliance Manual and compliance controls, the Systems encourage Managers managing assets aggregating over $3 billion for all clients to have conducted at least a Level I SAS 70 review, or the equivalent of a SAS 70 in the country of incorporation or formation. The third party review of the Compliance Manual and compliance controls may be conducted as an explicit add-on to a SAS 70 review.

3. Managers/Consultants Must Monitor Personal Trading.

Each Manager/Consultant must certify that it has a written personal trading policy with an established method for monitoring same. For Managers/Consultants managing, or advising as to, assets aggregating over $3 billion for all clients, the Systems encourage the use of an automated system, such as STAR Compliance. The Manager/Consultant must report in detail any personal trading violations within the last 12 months and report the Manager/Consultant's response to it. It is acceptable if the disclosure of these violations is grouped according to categories of violations and of employees in some reasonable manner.

4. Managers Must Have a Policy on Mutual Funds Trading.

The Manager must certify that it has a written policy on disclosure of market timing and late trading of mutual funds, where applicable, which should comply with the requirements of the SEC RIN 3235-AI99. The Manager should notify BAM, i) annually; and ii) promptly upon occurrence, of any violations and/or any investigations by any government agency or any securities exchange involving or against the Manager or any of its personnel within the last three years with respect to such trading.

5. Managers Must Report Violations Relating to Restricted Securities.

Managers are required to include a report to BAM on any inquiry or other action by any governmental agency relating to the improper sale within the last three years by the Manager to any person of any restricted securities (such as those covered by Rule 144a).

6. Managers/Consultants Must Provide Updates on Government Investigations and Enforcement Actions.

a) Managers and Consultants must, unless prohibited by law, regularly and promptly notify BAM in detail with respect to the commencement of, status of, or significant developments in, any government investigation of the Manager or Consultant or its employees in connection with any potential violations of applicable laws, or any enforcement action in connection therewith.

b) Managers and Consultants must promptly provide such updates, and must promptly provide all disclosure called for by this Policy, regardless of whether the Manager or Consultant is required to file an S.E.C. Form 8K or is yet due to file a Form ADV.

III. Non-Compliance with this Policy - Reporting Requirements

BAM Will Report Non-Compliance to the Boards

To the extent BAM receives or obtains information indicating that a Consultant or Manager is substantially out of compliance with the Policy and/or substantially in violation of applicable law, BAM will report such information to the Board for whatever action the Board deems appropriate, which may include termination of the Consultant or Manager.

IV. Dissemination of Policy to Consultants and Managers

A. Current Consultants and Managers

Upon amendment of this Policy by the Boards, BAM shall immediately forward copies of the amended Policy to all current Consultants and Managers.

B. Prospective and New Consultants and Managers

1. Consultants and Managers seeking to do business with the Systems will be required to certify compliance with the Policy, and provide the disclosures required by the Policy, at the time they submit their response to a Request for Proposals ("RFP") or, in the event that there is no RFP process, during the selection process.

2. If awarded a contract with the Systems, including any assignment of an existing contract, all new Consultants and Managers will be required to file with BAM, prior to signing the contract, their first Annual Certification and Compliance Statement, as described above (the "Initial Statement"). If the date of a new Manager/Consultant's submitting its Initial Statement is after January 1 of a given year; then on June 15 of that year, the Manager/Consultant need only file a statement disclosing any updates to the information contained in its Initial Statement.

Adopted: Effective May 2005

Amended: Effective March 2006

CERTIFICATION: ETHICS AND COMPLIANCE POLICY

I, [name of individual:]____________________, in connection with the Ethics and Compliance Policy (the "Policy") of the New York City Retirement Systems (the "Systems"), hereby certify:

1. That I am the duly authorized representative of [name of firm:] ____ (the "Undersigned"), and that I have been duly authorized to execute this Certification on behalf of the Undersigned;

2. That the Undersigned acts as an investment advisor/consultant for (check as appropriate):

NYCERS ______

TRS __________

Police ________

Fire __________

BERS ________

and advises on the following asset classes:

____

____

3. That the Undersigned is a fiduciary to the System(s) and in investing or in consulting with respect to a System's assets, shall exercise at all times the diligence and standard of care which is the highest to which any of the following is subject: (i) a professional fiduciary; (ii) a trustee of an express trust under the laws of the State of New York; (iii) a fiduciary under Section 404 of ERISA or (iv) an investment manager and analyst in the industry

4. That the Undersigned:

a) has received copies of and read the Policy;

b) is currently in full compliance with all terms and conditions of the Policy, unless otherwise disclosed in the Annual Certification and Compliance Statement;

c) has attached to this Certification all written disclosures that are required in the Annual Certification and Compliance Statement;

d) for as long as it does business with any of the Systems, will continue to comply with the Policy, and will make all subsequent disclosures required by the Policy in a timely manner; and

e) has completed the required third party review in accordance with sub-section II(B)(2) of the Policy on [enter date] __________________. (In the event such review has not been completed, enter the anticipated review completion date.)

Dated:________________________________

Firm name:________________________________

By:________________________________
(please sign above this line)

Name of individual:________________________, Authorized Representative

Title: ________________________________

New York City Employees' Retirement System

Alternative Investment Policy

Proposed: September 23, 2003
Adopted: September 23, 2003
Modified: December 16, 2003
Modified: October 24, 2006

Purpose of Alternative Investments Policy

The purpose of this Alternative Investments Policy (the "Policy") for the New York City Employees' Retirement System (the "System") is to establish the parameters by which the System may invest through its Alternative Investments Program (the "Program"), to ensure that the Managers, Advisors, Consultants and other external resources retained by the System adhere to the investment principles and guidelines of the Board, while preserving the flexibility necessary to accomplish its mandates while minimizing risk and correlation, maximizing diversification and consequently minimizing volatility and maximizing risk adjusted returns.

This Policy, as of its adoption date, supersedes the Targeted / Alternative Investments Investment Policy Statement of the System, as last modified on May 22, 2001 (the "2001 Policy"), except with respect to that portion of the 2001 Policy which pertains to economically targeted investments, which remains in effect.

Objectives of Alternative Investments

The System has mandated investments in Alternative Investments[1] in general, and the private equity asset class in particular:

- To increase the diversification of its assets.
- To take advantage of the ability to accept illiquidity in the short term in exchange for an illiquidity premium.
- To provide an opportunity to invest in securities with a relatively lower correlation with the performance of the public markets.
- To take advantage of quality Managers who are able to transform the asymmetries of information and high transaction costs which characterize the market for Alternative Investments into excess returns.
- To reduce the volatility and increase the risk-adjusted returns of the overall portfolio of the System.

The System also expects that commitments to and investments in Alternative Assets will establish, maintain and continually improve the reputation of the System as an investor, and that the System will make both continuous use of and contributions to the best practices of investors in Alternative Investments. NYCERS will seek investments in which the proposer demonstrates a commitment to standards of good conduct, including compliance with all Federal, State and local laws, including, but not limited to, labor, anti-discrimination, environmental, and health and safety laws, and will reject investments that would serve to embarrass investors or bring public or regulatory scrutiny. NYCERS

[1] Alternative Investments are non-traditional investments made with the objective of achieving returns that are greater than those earned in the traditional public equity and debt markets. Alternative asset class components may be broadly categorized as (1) non-marketable, illiquid assets, and (2) marketable, liquid securities managed in a nontraditional format. Special debt, private equity, (including venture capital) real-estate-related investments, oil and gas, as well as timber, are examples of non-marketable assets. Risk arbitrage, commodities and derivatives are examples of the more liquid alternative asset types.

encourages the submission of proposals for review from proposers that demonstrate a strong commitment to diversity in their firms.

The operation of the Program is subject to the exclusive benefit rule and all other applicable laws, including requirements of prudence.

Asset Allocation

The asset allocation study conducted in 2003 authorized a 5% market value exposure to private equity and the Board of Trustees recognizes it will take years to achieve this market value exposure. As commitments to private equity partnerships are drawn over time, they necessarily must exceed the target market value exposure in a mature portfolio.

Responsibilities and Delegation

Role of Board of Trustees

The Board shall approve this Policy no less than biennially. In addition, the Board shall:

- annually approve an Annual Plan.
- approve the retention of financial, record-keeping/monitoring/reporting and strategic Consultants and Advisors ("Consultants") and other external resources.
- approve the retention of outside legal counsel.
- oversee performance.
- approve investments.
- delegate investment approval authority as appropriate.

Role of the Comptroller's Office Staff

The duties of the Comptroller's Office Private Markets Staff ("Staff") include, but are not limited to:

- Recommending changes in the Policy to the Board, developing and implementing an Annual Plan, and managing the operations of the Program;
- Proposing, issuing and evaluating responses to RFPs for the selection of Consultants and making selection recommendations to the Board;
- Managing the System's existing portfolio of Alternative Investments, including management of Consultants;
- Managing the System's relationships with Consultants and other external resources, to ensure that the System obtains the maximum value from those relationships;
- Performing, managing and supervising due diligence on and recommending commitments of capital to Alternative Investments, subject to the Policy and the Annual Plan, to the Board;
- Notifying the Managers of prospective investment vehicles, in writing, as promptly as practicable

following the decision of the Board to make a commitment of capital to an investment vehicle; and

- Monitoring and reporting to the Board on investment performance.

The duties of the Comptroller's Office legal staff include, but are not limited to:

- Reviewing Alternative Investment policy and any other policies developed as part of the Program;
- Reviewing Alternative Investment procedures.
- Participating in procurement of Consultants and other necessary experts.
- Implementing Trustee direction regarding the retention of outside legal counsel and other Consultants.
- Managing retained outside counsel sufficiently experienced and expert in the form of the Alternative Investment under consideration.
- Conducting legal due diligence in conjunction with outside counsel, which diligence shall include a review of proposed investments for statutory and regulatory compliance on a case-by-case basis.
- Working with outside counsel in reviewing and negotiating all contracts.
- Assisting Staff and rendering legal advice regarding any developments occurring during the life of the investment.
- Assisting Staff and rendering general legal advice on the development and implementation of the Program.

Role of Consultants

The System and the Program shall retain Consultants to assist them in:

- Developing and implementing strategy and an Annual Plan (see below).
- Performing due diligence on and recommending commitments of capital to Alternative Investments, subject to the Policy and the Annual Plan, to the Staff.
- Assisting Staff in identifying, negotiating and executing commitments and investments.
- Fulfilling such other purposes as the Board may approve.

Performance Benchmarking

The performance of the Program shall be measured against at least two benchmarks:

- *Opportunity cost*: the long-term performance of investments made through the Program and of the Program as a whole shall be measured against the ten-year average of the Russell 3000 + 500 basis points. The index shall be modified to reflect the Program's actual cash flows.
- *Relative performance:* the performance of individual investments made through the Program and of the Program as a whole shall be measured against other similar Alternative Investments as

reflected in the Venture Economics Median Index or a similar measure.

Staff shall report regularly to the Board on performance of individual investments and of the Program.

Investment Operations

General Approach

The Staff shall review and manage investments using a disciplined but opportunistic management strategy. Guided by the Annual Plan (see below), Staff shall use a "top-down" approach to making assessments as to appropriate strategic weightings within the portfolio. Staff then shall seek to identify the most attractive investment opportunities available consistent with the Annual Plan and with the goal to be diversified prudently across strategies, industries, partnerships and geography.

Annual Plan

Staff shall present to the Board for its approval an Annual Plan which shall provide guidance to the Staff in the management, operations and investments of the Program.

Portfolio analysis/construction

The Annual Plan shall include an elaboration of a target strategic allocation within the private equity asset class. The categories and allocation ranges initially shall be:

Strategy	***Allocation***
Corporate finance	55-70%
Venture capital	15-25%
International	10-15%
Other (mezzanine, distressed, secondaries, etc.)	10-15%

Pacing

The Annual Plan shall include an identification of an optimal average commitment size to be made by the System within each strategy as well as a total target commitment for the System within each strategy (the "Pacing Analysis") in order to achieve both the target strategic allocation and the overall allocation to the Alternative Investments asset class. The Pacing Analysis shall take into account the System's overall allocation to and investments in the Alternative Investments asset class, within each strategy, across industries and geography, and by vintage as well as the market environment and such other considerations as are appropriate. The Program shall strive to avoid inappropriate concentrations in strategies, industries, geographic areas, funds, Managers or vintage years.

Investment Guidelines

Strategic Allocations

Investments made under the Program shall be made in accordance with the Annual Plan.

Prohibited Investments

Direct co-investments, direct investments, strategic investments in Managers, hedge fund investments and derivative investments are not permitted.

Permissible Equity Markets

No impermissible investments will be made as part of this asset allocation (hereinafter, the “Investment Restriction”). For purposes of this Investment Restriction “impermissible investments” shall mean investments in (i) portfolio companies or investment vehicles that, at the time of commitment of funds, are organized, headquartered or operating principally in an Impermissible Country or Countries (as hereinafter defined) and/or (ii) property located in an Impermissible Country. Impermissible Countries shall be those countries which are neither identified as permissible by NYCERS’ Emerging Market Screen, nor by CalPERS as a “Developed Global Equity Market.”

Staff shall be responsible for the application of the Investment Restriction to the individual investments made by the funds to which NYCERS commits capital. The Board recognizes that in order to accomplish this, Staff will have to negotiate an opt-out right in respect of the Investment Restriction for each fund to which NYCERS proposes to commit capital. Therefore, the application of the Investment Restriction at the portfolio company level may affect NYCERS’s access to certain private equity funds that do not permit its investors to opt out and be excused from making investments. It may also require that, from time to time, NYCERS opt out of certain investments made by the funds to which NYCERS commits capital. This may affect the overall performance of NYCERS’s investment in such particular funds, but the Board has determined that investing in Impermissible Countries poses a greater investment risk overall.

Staff is hereby delegated the authority to evaluate and determine whether individual investments proposed by a fund to which NYCERS has committed capital may violate the Investment Restriction. Given the global nature of business transactions today, certain investments may not fall squarely within or outside of the Investment Restriction. In addition, investment vehicles (including investment funds themselves) formed in foreign jurisdictions are being used in increasing numbers by investment funds as their investor bases also become more global. Accordingly, the Board has determined that the Investment Restriction shall not prohibit participation in investment vehicles (including investment funds themselves) formed in highly-established jurisdictions such as Bermuda, the Cayman Islands, the Channel Islands and such other similar jurisdictions as Staff may determine after reasonable diligence, so long as the Investment Restriction applies at the portfolio company level.

Staff shall apply their good faith judgment in cases where the applicability of the Investment Restriction is unclear in order to comply with the intent of the Investment Restriction.

The Investment Restriction shall apply to investments made after the effective date hereof, and shall apply at the time of investment. Therefore, this Investment Restriction does not require divestment of an investment that was in compliance herewith as of the date such investment was made.

Funds of Funds and Discretionary Mandates

The Program may, from time to time, use funds of funds or Managers with discretionary mandates to accomplish investment strategies and activities (including, but not limited to, highly specialized or labor-intensive activities).

Investment Limits

Commitment Size: The System shall not make a commitment to an individual fund which exceeds the lesser of $200 million or 15% of the final commitments to that fund.

Concentration: The System shall maintain diversification in both commitments and investments across geography, industry, strategy, Manager, vehicle and vintage year.

Investment Vehicles

The Program will only consider investment structures that provide limited liability to the System.

Targeted Investments

Targeted private equity investments may be made and shall be in keeping with this Policy as well as any targeted investment policy of the System.

Minimum Requirements

The following shall be the minimum requirements for all investments:

- The principals shall demonstrate relevant experience and expertise in the strategy they propose to execute and the market in which they propose to operate.

- The principals shall demonstrate requisite skills and experience necessary to execute the proposed strategy, including evidence from similar prior accomplishments.

- The principals shall demonstrate an ability to cooperate and to work well together over the long term and to manage a stable organization.

- The principals shall dedicate a sufficient proportion of their time and effort to the proposed investment vehicle.

- The principals shall make a meaningful personal financial commitment to the proposed investment.

- The principals shall be individuals of high character and solid professional reputation.

- The proposed strategy and business plan shall be set forth in sufficient detail as to permit substantive and meaningful review of the investment opportunity, verification of the investment concept and evaluation of the appropriate risk factors.

- NYCERS will not entertain proposals that have the potential of eliminating public-sector jobs.

- The proposed strategy and business plan shall provide reasonable assurance that the investment opportunity can produce the target return.

- The risk anticipated in the strategy and market is justified by and compensated for by the proposed investment, based on reasonable assumptions.

Evaluation Criteria

Primary emphasis will be on the quality and experience of the general partners, sponsors or managing members (collectively for ease of reference "general partners") and the staff of a proposed investment. Additional factors to be evaluated shall include:

- Fit within the Annual Plan and the System's portfolio.

- Strategy: its uniqueness, the general partner's access to proprietary deal flow, and the flexibility and likelihood of success of the firm's entry and exit strategy.

- Integrity and reputation of the general partners, its employees and other investors.

- Depth and breadth of the general partners principals' and their employees' experience and expertise.
- Personnel turnover.
- Quality of overall partnership governance and management of the partnership including controls and reporting systems (including audited financials and reports to limited partnerships).
- Relationship with and reputation among existing investors (e.g., re-ups and declines).
- Relationship with existing portfolio companies, including terminated Managers.
- Relationship and reputation among banks and other sources of financing.
- Nature and quality of value-added involvement by general partners.
- Demonstrated ability of general partners and their employees.
- Past financial performance.
- Pre-existing commitments of general partners (with particular emphasis on unrealized investments in previous funds).
- Alignment of employee interests with those of Principals.
- Alignment of general partner interests with investors (general partner investment relative to contemplated commitment, waterfall, treatment of transaction fees, clawbacks and lookbacks, operating budget, etc.)
- Appropriateness of terms and conditions.

Investment Management

Staff and Consultants shall be responsible for monitoring the performance of, and developments at, portfolio funds.

NEW YORK CITY EMPLOYEES' RETIREMENT SYSTEM

REAL ESTATE INVESTMENT POLICY

Adopted on April 26, 2005
Amended on October 24, 2006

NEW YORK CITY EMPLOYEES' RETIREMENT SYSTEM
REAL ESTATE INVESTMENT POLICY

TABLE OF CONTENTS

SECTION I - INTRODUCTION

A. Purpose of Real Estate Investment Policy

The purpose of this Real Estate Investment Policy (the "Investment Policy") for the New York City Employees' Retirement Fund (the "Fund" or "NYCERS") is to establish the parameters by which the Fund may invest through its Real Estate Program (the "Program"), to ensure that the Managers (which term collectively refers to and includes, but is not limited to, "principals," "managing members," "general partners," "sponsors," "advisors," and "proposers"), and the Consultant and other external resources retained by the Fund, adhere to the investment principles and guidelines of the Board of Trustees (the "Board"), while preserving the flexibility necessary to accomplish the objectives of the Program.

B. Objectives of Real Estate Investments

Consistent with the strategy approved by the Board, the role of real estate investments made through the Program is:

- To enhance the diversification of the Fund's investments through the historically low or negative correlation between real estate and other financial asset classes;
- To provide competitive risk-adjusted returns relative to other asset classes;
- To serve as a hedge against inflation;
- To emphasize long-term income returns.

Domestic private market equity real estate possesses the best attributes to meet the role defined for the Program.

The Fund also expects that commitments to and investments in the real estate asset class will establish, maintain and continually improve the reputation of the Fund as an investor, and that the Fund will make both continuous use of, and contributions to, the best practices of investors in real estate. The Fund will seek investments in which the proposer demonstrates a commitment to standards of good conduct, including compliance with all Federal, State and local laws, including, but not limited to, labor, anti-discrimination, environmental, and health and safety laws, and will reject investments that would embarrass investors or bring public or regulatory scrutiny. The Fund encourages the submission of proposals for review from proposers that demonstrate a strong commitment to diversity in their firms.

The operation of the Program is subject to the exclusive benefit rule and all other applicable laws, including requirements of prudence.

C. Asset Allocation

Pursuant to a 2003 asset allocation study performed by the Fund's general consultant, Callan Associates, the Board has adopted an allocation to private market real estate of six percent (6%) of the market value of the total investable assets of the Fund. The Board recognizes that it will take several years to achieve this market value exposure. As it is the case that commitments in connection with the Program are drawn down over time, such commitments at any particular time may exceed the target market value exposure in a mature Program.

SECTION II - RESPONSIBILITIES AND DELEGATION

A. Role of the Board of Trustees

The Board, assisted by the recommendations of Staff and Consultant, will:

- Review and approve this Investment Policy, along with the Annual Plan;
- Review and approve the scope for any Program Requests for Proposals;
- Approve Enhanced ("Value") and High Return ("Opportunistic") investments and Managers pursuant to recommendations by Staff and Consultant;
- Delegate investment approval authority as appropriate;
- Review the performance of the Program and its compliance with the objectives and policies stated herein;
- Complete or enable the completion of any other activities necessary to implement and monitor real estate investments through the Program;
- Approve the retention of other external resources to the Program.

B. Role of the Comptroller's Office Staff

Comptroller's Office Staff ("Staff") will:

- Oversee and participate with the Consultant in the preparation of the Investment Policy and the recommendation of changes in the Policy to the Board;
- Oversee and participate with the Consultant in the preparation of an Annual Plan;
- Oversee and participate with the Consultant in the preparation of all other necessary Program policies, guidelines and documents;
- Manage the operations of the Program including management of external resources to the Program;

- Manage the Fund's relationships with external resources, to ensure that the Fund obtains the maximum value from these relationships;
- Work with the Consultant to search for, identify, evaluate and recommend to the Board investment vehicles operated by qualified Enhanced Return and High Return Managers;
- In a discretionary capacity, work with the Consultant, to implement the Stable ("Core") component of the Program including the selection of Managers and portfolio construction. The Board will be apprised of the progress of this aspect of the Program periodically;
- Review and negotiate the business terms of documents in connection to real estate investments;
- Perform, manage and supervise due diligence on and recommendations of commitments of capital to real estate investments, subject to the Investment Policy and Annual Plan;
- Monitor the process for the transfer of funds including capital calls, contributions or distributions, Consultant certifications, and the coordination of the receipt and distribution of capital with respect to funding new and/or existing real estate investments or the liquidation/disposition of investments;
- Monitor and report to the Board on investment performance;
- Complete any other activities required by the Board or those specifically delegated to the Staff in the Investment Policy or Annual Plan, or other applicable policies.

The duties of the Comptroller's Office General Counsel include, but are not limited to:

- Review the Real Estate Investment Policy and any other policies developed as part of the Program where legal oversight is required;
- Participate in the procurement of external resources to the Program;
- Manage retained outside counsel sufficiently experienced and expert in the form of the investment under consideration;
- Conduct on a case by case basis legal due diligence in conjunction with outside counsel, which due diligence will include a review of proposed investments for statutory and regulatory compliance;
- Coordinate and work with outside counsel and Staff the review and negotiation of all legal documents related to Program investments;
- Assist Staff and render legal advice regarding any developments occurring during the life of the investment;
- Assist Staff and render general legal advice on the development and implementation of the Program.

C. Role of the Consultant

Consultant will:

- Monitor on an ongoing basis the real estate and capital markets and the investable universe of Managers and real estate investment vehicles;
- Assist Staff in developing the Investment Policy and Annual Plan and review the latter document periodically in order to recommend revisions that reflect changes in the real estate and capital markets;
- Assist Staff in searching for, identifying, evaluating and recommending select investment vehicles operated by qualified Managers;
- Perform due diligence on and recommend commitments of capital to real estate investments, subject to the Investment Policy and the Annual Plan;
- Assist Staff in implementing Stable investments;
- Assist Staff in the implementation, negotiation and execution of new investments and consult, as necessary, on the termination of Managers;
- Facilitate the transfer of funds in order to perfect investments;
- Monitor and evaluate, on an on-going basis, Manager performance; alert Staff regarding any significant organizational changes of contractual non-compliance on the part of a Manager;
- Monitor the custodian of the pension fund with respect to Program investments;
- Provide quarterly Performance Measurement Reports;
- Periodically report to the Board and advise the Board on investments.
- Undertake such other activities necessary to the efficient functioning of the Program as determined by the Board and Staff.

SECTION III - PROGRAM OPERATIONS

A. General Approach

Investment decisions regarding the Program will be guided by the following objectives: (i) to maintain a broad diversification of assets; (ii) to achieve a total return competitive with other asset classes; (iii) to serve as a hedge against inflation; and (iv) to emphasize long-term income returns.

Controlling risk in the Program is equally as important as obtaining the desired risk-adjusted returns. The Fund will follow prudent risk management policies that will manage risk through control over the investment process and investment vehicles and will ensure prudent diversification by investment style sector, property type, geographic location, and by manager.

B. Strategy Allocation

The categories and allocation ranges by investment style sector will initially be:

1. Stable Return: 60%-80%
2. Enhanced Return: 10%-40%
3. High Return : 0%-30%

For each of the four traditional property types (Office, Retail, Industrial, Multifamily) and for each of the primary NCREIF Property Index (NPI) regions (East, West, Midwest, South) the Program will be invested such that the Program weighting will be within a range of the NPI weighting for such property type or region of $\pm$30%. The four property types will represent at least 85% of the total real estate portfolio. For all other property types, the Fund will limit the aggregate holdings of such types to no more than 15% of the total portfolio. This category includes specialized property types.

C. Investment Vehicles

The Program will only consider investment structures that provide limited liability to the Fund. Investments may be made by means of any legally permissible investment vehicles, including, but not limited to: separate accounts, joint ventures, commingled funds, limited partnerships, group trusts, real estate operating companies, insurance company separate accounts and limited liability corporations. The Fund will consider co-investments with comparable institutional investors who have similar investment objectives.

D. Discretionary Mandates

The Program will use Managers who will have discretion at the fund and property level within their mandate to accomplish investment strategies and activities. Working with the Consultant, Staff has discretion over the Stable component of the Program.

E. Program Benchmark

The Program's objective is to generate a total return, gross of investment management fees, that exceeds the return of the NPI by 100 basis points, measured over rolling five-year periods. (NB: the NPI is reported gross of fees.)

F. Annual Plan

Staff and Consultant will present to the Board annually for its approval an Annual Plan, which will provide guidance to the Staff and Consultant in the management, operations and investments of the Program. The Annual Plan will specify the target amount for investment in that year and a pacing analysis (see below). The Plan will include an elaboration of a target strategic allocation within the real estate asset class. It will specify ranges across investment style sectors and diversification by property type and geographic location.

G. Pacing

The Annual Plan will include an identification of an optimal average commitment size to be made by the Fund within each investment style sector as well as a total target commitment for the Fund within each sector (the "Pacing Analysis") in order to achieve both the target strategic allocation and the overall allocation to the Real Estate Program. Ranges will be utilized in describing the aforementioned targets. The Pacing Analysis will take into account the Fund's overall allocation to investments. The Program will strive to avoid inappropriate concentrations by investment style sector, property type, geographic location and manager.

H. Risk Management

The Fund recognizes the inevitability of the assumption of risk in the management of a Real Estate Investment Program. The portfolio will be diversified in order to achieve a balance of risks within this asset class. Managers selected by the Board shall provide information adequate in quantity, quality and timeliness to permit Staff and the Consultant to monitor risk, and shall have risk management systems appropriate to their investment disciplines. Investment performance is a function of risk and return, and should be construed as such when the term is used in this policy statement. Managers shall also have internal procedures and controls appropriate to the industry. Such controls should address operational safeguards, conflicts of interest, ethical compliance issues and such other risk concerns as appropriate.

SECTION IV - PROGRAM GUIDELINES

A. Strategic Allocations

Investments made under the Program will be made in accordance with the Investment Policy and Annual Plan.

B. Permissible Investments

All investments will be of institutional quality. Such opportunities may be found in the Stable, Enhanced Return and High Return sectors. Institutional quality investments are typically well located in stable, diversified economic markets. Investments should be of high quality design and construction and in a competitive position within the immediate geographic market area of such investment. Investments may be made by means of any legally permissible investment vehicles.

C. Permissible Private Equity Real Estate Markets

No impermissible investments will be made as part of this asset allocation (hereinafter, the "Investment Restriction"). For purposes of this Investment Restriction, "impermissible investments" will mean investments in (i) portfolio companies or investment vehicles that, at the time of commitment of funds are organized, headquartered or operating principally in an Impermissible Country or Countries (as hereinafter defined) and/or (ii) property located in an Impermissible Country. Impermissible Countries shall be those countries which are neither identified as permissible by NYCERS Emerging Market Screen nor by CALPERS as a "Developed Global Equity Market", which may be amended from time to time.

Staff, with the assistance of the Consultant, will be responsible for the application of the Investment Restriction to the investments to which the Fund commits capital. The board recognizes that in order to accomplish this, Staff will have to negotiate with respect of the Investment Restriction, an opt-out right in pooled fund investments, for each fund to which NYCERS proposes to commit capital. Therefore, the application of the Investment Restriction at the property level may affect NYCERS' access to certain private market equity real estate funds that do not permit its investors to opt out and be excused from making investments. It may also require that, from time to time, NYCERS opt out of certain investments made by the funds to which NYCERS commits capital. This may affect the overall performance of the investment in such particular funds, but the Board has determined that investing in Impermissible Countries poses a greater overall investment risk.

In addition, investment vehicles (including investment funds themselves) formed in foreign jurisdictions are being used in increasing numbers by investment funds as their investor bases also become more global. Accordingly, the Board has determined that the Investment Restriction shall not prohibit participation in investment vehicles (including investment funds themselves) formed in highly-established jurisdictions such as Bermuda, the Cayman Islands, the Channel Islands and such other similar jurisdictions as Staff may determine after reasonable diligence, so long as the Investment Restriction applies at the portfolio company level.

D. Restriction

The Investment Restriction will apply to investments made after the effective date hereof, and will apply at the time of investment. Therefore, this Investment Restriction does not require divestment of an investment that was in compliance herewith as of the date such investment was made.

E. Leverage

The Fund recognizes that the use of leverage can enhance returns and can facilitate additional diversification within the Program. Utilization of leverage also introduces volatility and risk. In light of the fact that leverage carries with it potential positive and negative impacts on the Program, the use of leverage will be limited to no more than a 50% loan to value once 80% of the Program's real estate allocation has been invested. Until such time the 50% limitation may be exceeded, depending upon the portfolio mix of Stable Return, Enhanced Return and High Return style sector investments, as Enhanced Return and High Return investments commonly utilize leverage in excess of 50%. This level will allow the Fund to capture some of the benefits of using leverage without dramatically increasing expected risk. The Fund will not use leverage in all situations, and Staff and Consultant will recommend the deployment of leverage only under appropriate circumstances.

F. Environmental Liability

Prior to closing on any real estate investment, the Fund's Managers will have performed an appropriate environmental survey of the property performed by a qualified environmental services firm. The survey will identify any potential hazardous materials located on, or near, the property that may create any liability to the Fund. The survey will further analyze and quantify the potential risk and will determine any actions that may mitigate the risk. If the identified risks cannot be appropriately mitigated, then the Manager will not close on the property.

G. Valuations

The real estate asset class is relatively illiquid and is not fungible. In addition, many investments have a longer term holding period. As a result, real estate lacks the trading frequency to establish values and relies on an appraisal process to periodically value investments. The Fund will utilize valuation policies consistent with industry standards for the asset class of real estate.

H. Investment Size

The Fund will monitor the amount of equity in any single investment opportunity (including but not limited to commingled funds, separate account relationships, individual properties and joint ventures) to maintain a prudent level of diversification and efficiency.

I. Manager Exposure

Manager risk consists of two elements: the exposure to a Manager/product and the number of Managers in the real estate portfolio. To control Manager exposure, the allocation to a single manager in the Program is limited to 25 % of the Fund's total real estate allocation. Manager affiliates cannot be utilized without Fund consent.

J. Economically Targeted Investments

Economically targeted real estate investments may be made in keeping with this Investment Policy as well as with any Economically Targeted Investment Policy of the Fund.

K. Emerging Manager

The Fund seeks to make investments with emerging managers to achieve greater diversification in a manner consistent with this Investment Policy.

SECTION V – SEPARATE ACCOUNTS

A. Restrictions

Staff with the assistance of the Consultant is hereby delegated the authority to evaluate and determine whether individual investments proposed by a Manager to which the Fund has committed capital may violate the Investment Restriction and that would embarrass investors or bring public or regulatory scrutiny. Given the global nature of business transactions today, certain investments may not fall squarely within or outside of these restrictions. Accordingly, Staff will apply their good faith judgment in cases where the applicability of the Investment Restriction is unclear in order to comply with the intent of the Investment.

B. Lease Maturities

A large percentage of the commercial property leases maturing during a period in which the real estate markets are under performing would subject the Program to significant risk. The Fund will seek investments that have staggered portfolio level lease maturation dates in order to reduce volatility and to mitigate concentrated leasing risk.

C. Insurance

The appropriate type and level of insurance will be obtained for Program investments. In the event that assets are directly owned, the ability to design, place and efficiently price a comprehensive insurance program that addresses the unique characteristics of directly owned assets will be sought.

D. Deal Allocation

In order to ensure fairness, Managers are expected to present investment opportunities to their clients on a rotation basis. The Fund will require periodic reporting by the Manager of all transaction activity indicating closed investments and the equitable distribution of deals.

E. Responsible Contractor

Managers will be required to comply with the Fund's policy regarding the retention of responsible contractors (see Appendix A).

F. Tenant Revenue

The Fund seeks to limit its reliance on the revenue generated by any one tenant in its real estate portfolio so that the loss of that tenant will not have a material impact upon the performance of the Program.

G. Concentration

The Fund will maintain diversification through previously referenced ranges in both commitments and investments across investment style sectors, property type, geographic location and manager.

SECTION VI – POOLED INVESTMENTS

A. Investment Restriction

The Board recognizes that in order to comply with the permissible markets policy and the restriction, Staff will negotiate an opt-out right in respect of the Investment Restriction. Therefore, the application of the restriction at the portfolio company and property level may affect the Fund's access to certain private market equity real estate funds that do not permit its investors to opt out and be excused from making investments. It may also require that, from time to time, the Fund opt out of certain investments made by the funds to which capital is committed. This may affect the overall performance of the investment in such particular funds, but the Board has determined that investing in Impermissible Countries poses a greater overall investment risk.

Staff with the assistance of the Consultant is hereby delegated the authority to evaluate and determine whether individual investments proposed by a fund to which the Fund has committed capital may violate the Investment Restriction.. Given the global nature of business transactions today, certain investments may not fall squarely within or outside of this restriction. Accordingly, Staff will apply their good faith judgment in cases where the applicability of the Investment Restriction is unclear in order to comply with the intent of the Investment Restriction.

B. Alignment of Interests

The Manager's interests and the interests of the Fund will be aligned to the extent possible through co-investment capital provided by the Manager and/or through incentive based compensation structures.

C. Key Person Protection

To mitigate risks during the investment period and to ensure that adequate time is being dedicated to the fund, certain executives may be required to restrict their time spent on other matters.

D. Fund Size

The Fund will consider pooled find investments in offerings that have or contemplate at least $250 million in commitments. This threshold will ensure a desirable level of diversification.

SECTION VII – OTHER INVESTMENT VEHICLES

An investment opportunity that does not fit within the separate account or pooled investment structure will be evaluated on a case by case basis. All such investments must conform to the Investment Policy Statement.

In connection with direct investments i) the Fund will seek investments in which the proposer demonstrates a commitment to standards of good conduct, including compliance with all Federal, State and local laws, including, but not limited to, labor, anti-discrimination, environmental, and health and safety laws, and will reject investments that would embarrass investors or bring public or regulatory scrutiny; and ii) Managers will be required to comply with the Fund's policy regarding the retention of responsible contractors (see Appendix A).

SECTION VIII – MINIMUM REQUIREMENTS AND EVALUATION CRITERIA FOR PROGRAM MANAGERS AND INVESTMENTS

The following will be the minimum requirements for all Managers and investments:

- The Manager will demonstrate relevant experience and expertise in the strategy they propose to execute and the market(s) in which they propose to operate;

- The Manager will demonstrate requisite skills and experience necessary to execute the proposed strategy, including evidence from similar prior accomplishments;

- The Manager will demonstrate an ability to cooperate and to work well together over the long term and to manage a stable organization;

- The Manager will dedicate a sufficient portion of their time and effort to the proposed investment vehicle;

- The Manager's interests and the interests of the Fund will be aligned to the extent possible through co-investment capital provided by the Manager and/or through incentive based compensation structures. Each compensation structure will be reviewed by Staff and Consultant. The Fund recognizes that co-investment practices and compensation structures may vary in part by the investment strategy to be executed and by the type of vehicle under consideration;

- The Manager's personnel will be individuals of high character and solid professional reputation;

- The proposed strategy and business plan will be set forth in sufficient detail so as to permit substantive and meaningful review of the investment opportunity, verification of the investment concept and evaluation of the appropriate risk factors;

- The proposed strategy and business plan will provide reasonable assurance that the investment opportunity can produce the target return;

- The risk anticipated in the strategy and market is both compensated for and justified by the proposed investment, based on reasonable assumptions;

- Other requirements notwithstanding, part of the Program allocation may be set aside for the creation of an emerging managers program.

Evaluation Criteria

Primary emphasis will be placed on the quality and experience of the Manager and on the personnel assigned to implement a proposed investment. All investments will be underwritten, managed and disposed of by a qualified Manager that has an established and successful record of providing advisory and investment services to institutions and who is deemed capable of delivering similar services in the future. The Manager will have proven experience providing like services, a successful performance history and an established client base. All Managers will assume a fiduciary relationship with the Fund.

Evaluation criteria applying to the stability and organization of Managers proposing services to the Fund will include the following:

- Stability of the firm, as measured by any changes in the organizational or ownership structure of the firm during a relevant time period prior to engaging the Manager;

- The existence of, or potential for, significant developments in the firm such as acquisitions, mergers or management succession over the next five years;

- The expected financial stability of the firm;

- Adverse organizational issues, such as the existence of litigation or other investigations; and the existence of financial problems;

- Quality of references from clients, as measured by responses relating to quality and responsiveness of investment management services; knowledge and accessibility of the portfolio manager(s); and the quality of client services.

Evaluation criteria applying to the experience of the Manager in implementing a specified investment strategy for the Fund may include the following:

- the total number of clients utilizing the Manager's services for the specified strategy and the growth or decline in this number historically;

- the total net equity tax exempt dollar amount of assets under management currently and historically;

- the total number and net equity tax exempt dollar investments made by the firm during a relevant historical period;

- the percentage that net equity assets under management following the strategy proposed represent of the firm's total net equity real estate assets under management;

- Property type and geographic diversification characteristics of net equity assets under management.

Evaluation criteria regarding the quality, stability, depth and experience of the Manager's personnel assigned to implement a specified strategy for the Fund may include:

- Experience of the proposed portfolio manager(s) in managing for institutional investors as measured by the length of time the portfolio manager(s) has served as a in such a capacity;

- Capacity of the proposed portfolio manager(s) as measured by the total number, dollar amount and status (actively investing, periodically investing, divesting) of other accounts to which the proposed portfolio manager(s) is providing services;

- Experience of other professionals (asset managers, acquisitions and dispositions professionals, analysts and other professionals) in providing investment management services as measured by the length of time dedicated support staff have provided such services to institutional investors;

- Depth of personnel, as measured by the firm's account/portfolio manager and account/investment management personnel ratios; and back-up procedures for providing services in the absence of the portfolio manager(s);

- Stability of the firm's professional base, as measured by investment professional personnel turnover over a relevant time period.

Evaluation criteria regarding processes utilized by the Manager in implementing real estate investments for the Fund along a specified investment strategy may include:

- A well defined investment management process and consistent process implementation, as measured by documented acquisition, underwriting and management procedures; a defined portfolio construction methodology; and the implementation of risk controls which provide appropriate safeguards for prudent underwriting and risk management;

- A well defined, documented and equitable process by which potential investments are allocated among the Manager's clients, as measured by historical allocation results, written documentation, and whether any client(s) have any preference or advantage over other clients;

- Capacity to execute this strategy for the Fund, as measured by capital available for investment by the Manager's clients for all strategies and capital available for investment specifically in the strategy of interest to the Fund;

- A well defined disposition process, as measured by documented disposition procedures;

- A well-defined procedure for measuring investment performance and the capacity to monitor performance.

Evaluation criteria regarding past performance of the Manager may include:

- The historical performance of the Manager's investments as measured by its cumulative and annual performance compared to the NPI during a relevant historical period;

- The historical realized performance of the Manager's investments as measured by its since inception internal rate of return for all investments both made and sold by the Manager during a relevant historical period.

Evaluation criteria regarding Manager compensation may include the following:

- The total cost of performing investment management services, and the competitiveness of the Manager's fees when considering the Fund's capital commitment and the fees typically charged through the marketplace;

- The structure of the fees, as measured by the degree of Manager compensation tied to performance actually delivered to the Fund to ensure proper alignment of interests with the Fund

SECTION IX – PROGRAM MONITORING

A. Staff and Consultant

Staff and Consultants will be responsible for monitoring the performance of, and developments within, Program investments. Reports prepared by the Consultant will be furnished on a quarterly basis to Staff and to the Board and will include but not be limited to the Program's performance from inception to date, individual investment and Manager performance, highlights of investment activity, performance of the investment in the context of the market and sub-asset class and analysis of the current state of the market and projected market trends.

B. Managers

At least quarterly, Managers will be required to certify, in writing, their compliance with the Fund's real estate investment policy as described herein or as detailed in a side letter between the parties.

New York City Employees' Retirement System

Economically Targeted Investment Policy

Proposed: July 26, 2005
Adopted: July 26, 2005

Purpose of Economically Targeted Investments Policy

The purpose of this Policy is to establish the parameters by which the New York City Employees' Retirement System ("NYCERS," or the "System") may invest through its Economically Targeted Investments ("ETI") Program (the "Program"). ETIs are investments in a variety of asset classes that generate rates of return commensurate with the overall risk, liquidity, security and structure of comparable non-targeted investments while providing collateral economic benefits (benefits that enhance quality of life and promote economic development and activity) to the targeted areas. ETIs address capital gaps, thereby promoting the quality of life, growth and economic development in the targeted areas. For the purpose of this Policy, targeted areas are defined as the five boroughs of New York City.

This Policy, as of its adoption date, supersedes the Targeted/Alternative Investments Investment Policy Statement of the System, as last modified on May 22, 2001(the "2001 Policy").

Objectives of Economically Targeted Investments

The System has mandated investments in Economically Targeted Investments:

- to achieve competitive returns commensurate with the risk, liquidity and structure of the investment;
- to provide collateral economic benefits for the Targeted Areas;
- to address market inefficiencies in the Targeted Areas, and in particular capital gaps that affect the low-, moderate- and middle-income neighborhoods and populations of the Targeted Areas;
- to promote economic development and attract additional investment in the Targeted Areas;
- to increase the diversification of its assets; and
- to reduce the volatility of the overall portfolio of the System.

The System also expects that commitments to and investments in ETIs will establish, maintain and continually improve the reputation of the System as an investor. The System will make both continuous use of and contributions to the best practices of investors in ETIs, including rigorously applying the standard of valuing the achievement of risk-adjusted, market rates of return above the achievement of any collateral results. NYCERS will seek investments in which the proposer demonstrates a commitment to standards of good conduct, including compliance with all Federal, State and local laws, including, but not limited to, labor, anti-discrimination, environmental, and health and safety laws, and any of the stated policies of NYCERS and will seek to avoid investment programs that at the time commitment to the investment or investment program is made by the Trustees, the Trustees reasonably believe would likely (i) embarrass the Investor or (ii) generate public or regulatory scrutiny greater than that which is required by law or regulation to consummate the investment. NYCERS encourages the submission of proposals for review from proposers that demonstrate a strong commitment to diversity in their firms.

The operation of the Program is subject to the exclusive benefit rule and all other applicable laws, including requirements of prudence and will be operated in accordance with Department of Labor Interpretive Bulletin 94-1, 29 CFR Part 2509.

Asset Allocation

ETIs may cross a variety of asset classes, where practical and consistent with the standards in this and other policies. The System will seek to achieve a target allocation of 2% of assets to ETIs, by setting a

,

target of 6% for the fixed-income asset class and a target of 2% for the private equity and real estate asset classes respectively. In addition:

- The System will permit the combined total of contractual commitments to forward commitment programs to be no greater than 200% of the approved fixed income target asset allocation .
- The System will permit the combination of the market value of the total invested fixed income portfolio plus the combined total of unfunded rate locks generated by forward commitment programs to be no greater than 160% of the approved target asset allocation policy for fixed income.
- The System will permit the combined total of contractual commitments to private equity to be no greater than 130% of the target private equity allocation for ETIs.
- Funded investments must not exceed the target asset allocation without prior approval of the Board."

Responsibilities and Delegation

Role of Board of Trustees

The Board shall approve this Policy no less than biennially. In addition, the Board shall:

- Approve a Plan at least annually;
- Oversee performance;
- Approve investments;
- Delegate investment approval authority as appropriate; and
- Approve the retention of consultants and advisors ("Consultants"), outside legal counsel and other external resources as necessary.

Role of the Comptroller's Office Staff

The duties of the Economically Targeted Investment Staff of the Comptroller's Office (the "Staff") include, but are not limited to:

- Implementing and managing the operations of the program consistent with this policy and the direction of the Trustees;
- Developing and proposing a Plan for the Board's consideration, modification and adoption;
- Implementing the Plan as approved by the Trustees;
- Preparing new investment initiatives for the consideration of the Trustees;
- Evaluating and recommending investment programs and opportunities to the Trustees; and
- Monitoring and reporting to the Board on the performance of the program.

The duties of the Comptroller's Office legal staff (the "Legal Staff") are to assist the Staff in implementing the Trustees directives, including, but not limited to:

- Reviewing this Policy and any other policies developed as part of the Program;
- Participating in procurement of Consultants and other necessary experts; and

,

- Implementing trustee directions regarding the retention of outside legal counsel and other Consultants, performing legal work and providing legal advice in the ordinary course on the development and implementation of the program, managing and working with retained outside counsel, and ensuring statutory and regulatory compliance of investments.

Performance Benchmarking

The performance of each investment shall be measured against an appropriate benchmark, to be identified initially in conjunction with the making of the investment and to be modified from time to time to provide a suitable measurement of performance relative to investments with similar levels of risk, liquidity, security and structure. The collateral economic benefits shall be quantified to the extent possible and measured alongside the anticipated goal of the investment.

Staff shall report regularly to the Board on the performance of ETIs.

Investment Operations

General Approach

The Staff shall review and manage investments guided by the Plan, this policy statement and, in addition, the policy statement governing investments in the asset class to which an investment under consideration belongs. Staff shall seek to identify the most attractive investment opportunities available consistent with the above and with the investment objectives articulated in the Plan. All targeted investments shall be consistent with sound fiduciary standards (i.e. standards of prudence).

The Plan

Staff shall from time to time present to the Board for its approval a Plan which shall provide guidance to the Staff in the management, operations and investments of the Program.

Investment Parameters

Only those ETI investments that comparable favorably in terms of risk, liquidity, security and structure to similar non-ETI investments will be considered. Collateral economic benefits may not be factored when calculating risk or return. Only after an investment is determined to be financially sound may it be considered for the collateral economic benefits potentially offered.

Although ETIs shall target the five boroughs of New York City (the "Targeted Areas"), such investments may additionally provide benefits to areas outside of New York City.

Prohibited Investments

Investments that provide concessionary rates of return, that place social benefit concerns above the risk-adjusted return to the System or that violate any policy of NYCERS are not permitted.

Investment Limits

Commitment Size: The System will not consider any investment programs (which may consist of one or more similar investments) which are expected to result in the investment across all of the New York City Retirement Systems (NYCERS; the New York City Police Pension Fund, Subchapter 2; the New York City Fire Department Pension Fund, Subchapter 2; the Teachers' Retirement System of the City of New York; and the Board of Education Retirement System [collectively, the "Systems"]) of less than $20 million in the aggregate over three years. Neither shall it consider individual investments across the Systems

,

of less than $10 million unless such investments are made in the context of an investment program which is anticipated to result in the investment by the Systems of $20 million in the aggregate over three years.

Concentration: ETIs are, by definition, geographically concentrated. In order to mitigate this concentration risk, staff shall use a variety of tools, including but not limited to, guarantees, co-investors, and experienced managers.

Equity Investment Vehicles

The only equity structures that the System will consider will be those which provide limited liability to the System.

Minimum Requirements

The following shall be the minimum requirements for all ETI investments:

- All proposed investments must offer market rates of return on a risk-adjusted basis, with returns comparable to similar (non-ETI) products with similar risks, structures, liquidity and conditions;
- Investments must fill a capital gap or reach a sector of the market that is not efficiently served by the market;
- Investments must provide collateral economic benefits to the Targeted Areas;
- The proposing organization and/or the principals of a firm providing an investment must have three years' verifiable experience in and adequate staff for the type of investment proposed, and must provide a verifiable track record of relevant investment performance which demonstrates an ability to generate risk-adjusted returns with the product being proposed or a product substantially similar to the one being proposed; and
- The proposing organization and/or the principals must have demonstrated an ability to cooperate and to work well together with governmental and non-governmental financial entities as applicable and to manage a stable organization.

Evaluation Criteria

Proposed investments will be evaluated according to the following factors:

- The fit within the Plan and the System's portfolio;
- The clarity of the proposed investment or program and its parameters and goals;
- The extent to which the proposer demonstrates that the proposed investment or program will produce the anticipated risk-adjusted return and collateral benefits;
- The quality, reputation and experience of the investment managers and their ability to implement a proposed program or investment;
- The quality of controls and reporting systems (including audited financials, risk management systems and reports to investors); and
- The appropriateness of terms and conditions.

Investment management

Staff and Consultants shall be responsible for monitoring the performance of investments.

,

Proposed: July 26, 2005
Adopted: July 26, 2005

,

An initiative of the UN Secretary-General implemented by UNEP Finance Initiative and the UN Global Compact

The Principles for Responsible Investment

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1 We will incorporate ESG issues into investment analysis and decision-making processes.

Possible actions:

- Address ESG issues in investment policy statements
- Support development of ESG-related tools, metrics, and analyses
- Assess the capabilities of internal investment managers to incorporate ESG issues
- Assess the capabilities of external investment managers to incorporate ESG issues
- Ask investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis
- Encourage academic and other research on this theme
- Advocate ESG training for investment professionals

2 We will be active owners and incorporate ESG issues into our ownership policies and practices.

Possible actions:

- Develop and disclose an active ownership policy consistent with the Principles
- Exercise voting rights or monitor compliance with voting policy (if outsourced)
- Develop an engagement capability (either directly or through outsourcing)
- Participate in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights)
- File shareholder resolutions consistent with long-term ESG considerations
- Engage with companies on ESG issues

- Participate in collaborative engagement initiatives
- Ask investment managers to undertake and report on ESG-related engagement

3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Possible actions:

- Ask for standardised reporting on ESG issues (using tools such as the Global Reporting Initiative)
- Ask for ESG issues to be integrated within annual financial reports
- Ask for information from companies regarding adoption of/adherence to relevant norms, standards, codes of conduct or international initiatives (such as the UN Global Compact)
- Support shareholder initiatives and resolutions promoting ESG disclosure

4 We will promote acceptance and implementation of the Principles within the investment industry.

Possible actions:

- Include Principles-related requirements in requests for proposals (RFPs)
- Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly (for example, ensure investment management processes reflect long-term time horizons when appropriate)
- Communicate ESG expectations to investment service providers
- Revisit relationships with service providers that fail to meet ESG expectations
- Support the development of tools for benchmarking ESG integration
- Support regulatory or policy developments that enable implementation of the Principles

5 We will work together to enhance our effectiveness in implementing the Principles.

Possible actions:

- Support/participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning
- Collectively address relevant emerging issues
- Develop or support appropriate collaborative initiatives

6 We will each report on our activities and progress towards implementing the Principles.

Possible actions:

- Disclose how ESG issues are integrated within investment practices
- Disclose active ownership activities (voting, engagement, and/or policy dialogue)
- Disclose what is required from service providers in relation to the Principles
- Communicate with beneficiaries about ESG issues and the Principles
- Report on progress and/or achievements relating to the Principles using a 'Comply or Explain'[1] approach
- Seek to determine the impact of the Principles
- Make use of reporting to raise awareness among a broader group of stakeholders

[1]The Comply or Explain approach requires signatories to report on how they implement the Principles, or provide an explanation where they do not comply with them.

The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.

In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society.

We encourage other investors to adopt the Principles.