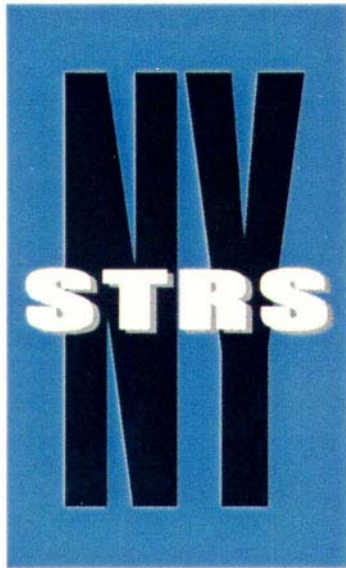


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NEW YORK STATE TEACHERS' RETIREMENT SYSTEM



INVESTMENT POLICY MANUAL

OCTOBER 2011

(Reflecting Changes Approved Through the July 2011 Board Meeting)



NEW YORK STATE TEACHERS' RETIREMENT SYSTEM
INVESTMENT POLICY MANUAL

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INVESTMENT POLICY MANUAL

Statement of Investment Policy

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Statement of Investment Policy

I. Introduction

The New York State Teachers' Retirement System ("System") exists solely to provide present and future retirement, disability, and survivor benefits to members and their beneficiaries, as defined by the laws of New York, and to cover reasonable expenses incurred to provide such benefits.

The System was established in 1921 by an enactment of the New York State Legislature and is governed by Article 11 of the Education Law.

This Investment Policy Manual ("Manual") is consistent with the laws of New York. It complements the laws, documents, principles, and standards that guide the management of the System. The Executive Director/CIO shall administer this Manual pursuant to the investment policies of the Retirement Board. This document is intended to be binding upon all persons with authority over the System's assets, including external investment managers/advisors, custodians, consultants, brokers-dealers, and staff.

The Manual is the end result of the System's careful and prudent study. The Manual includes the System's Statement of Investment Policy ("Policy") and sub-policies, which taken together present the Retirement Board's conclusions as to the most suitable combination of investments, within the legal requirements, which will satisfy the System's ongoing obligations for members and their beneficiaries.

II. Purpose of This Manual

The purpose of this Manual is to:

- A. Set forth the investment policies, objectives, and guidelines the Retirement Board judges to be appropriate, prudent and, in consideration of the System's needs, to comply with current laws and to direct the System's assets.
- B. Establish criteria to evaluate the System's investment performance.
- C. Communicate investment policies, objectives, guidelines, and performance criteria to the staff, external investment managers/advisors, consultants, custodians, and all other interested parties.
- D. Serve as a review document to guide ongoing oversight of the System's investments for compliance with the laws of New York.
- E. Demonstrate the Retirement Board's fulfillment of its responsibilities to manage the investments of the System solely in the interest of members and their beneficiaries.
- F. Document the Retirement Board's fulfillment of its overall fiduciary responsibilities.

III. Responsible Parties and Their Duties

- A. The System was established by an act of the New York State Legislature. The Legislature may modify the System's structures through amendment of the laws from time to time. The laws also specify requirements for the System's investments.
- B. The Retirement Board is a body of persons whose role is to oversee all aspects of the operation of the System. Members of the Retirement Board are fiduciaries and their responsibilities with respect to the System's assets include completing each of the duties below as a prudent expert:



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1. Set the policies, objectives, and guidelines for investment of the System's assets and evaluate compliance with investment policy and the laws of New York.
 2. Study thoroughly each issue affecting the System's investments to make educated and prudent decisions.
 3. Select qualified professionals to assist in implementing the investment policies.
 4. Evaluate total fund performance as well as all of its distinct components.
 5. Oversee procedures to manage risk for all aspects of the System.
- C. Pursuant to § 136-1.6(c) of Title 11 of the New York Codes, Rules and Regulations (the Regulations of the New York State Insurance Department), the Retirement Board, may, consistently with its fiduciary duties, delegate its powers of investment to a committee or agent within well-defined guidelines, subject to review by the Retirement Board.
- D. The System's staff is employed by the System. Staff's duty is to administer the System consistent with the policies and decisions of the Retirement Board and the provisions of the laws of New York and to provide input for the Retirement Board so issues can be studied fully prior to any Retirement Board decision. In addition, staff is responsible for interacting with the Legislature, serving the needs of the System's members, and managing the System's relationships with outside professionals and other constituencies.

The System's management is responsible for the accuracy of published information, as well as for the maintenance of appropriate internal controls needed to safeguard assets and facilitate the efficient operation of the System.

The responsibilities of executives or managers that are directly involved in the investment process are briefly described below:

1. The Executive Director/CIO shall allocate the available funds to the various investment classes and coordinate the activities of the Managing Director of Fixed Income; Managing Director of Public Equities; Managing Director of Private Equity; and the Managing Director of Real Estate through periodic meetings of the Internal Investment Committee.
2. The Managing Director of Public Equities, with the assistance of investment consultants, as the Managing Director deems necessary, shall oversee the selection of external equity investment managers and monitor those external investment equity managers. The Managing Director of Public Equities shall manage the System's internal equity portfolios.
3. The Managing Director of Private Equity, with the assistance of investment consultants as the Managing Director deems necessary, shall oversee the selection of external private equity investment managers and monitor those external private equity investment managers.
4. The Managing Director of Real Estate, with the assistance of investment consultants as the Managing Director deems necessary, shall manage the investment of direct and commingled equity real estate investments, publicly traded equity real estate securities, commercial mortgages and publicly traded commercial mortgage backed securities, real estate mezzanine funds, and other investment vehicles as required by the Executive Director/CIO.



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5. The Managing Director of Fixed Income shall manage the System's internal long-term bond portfolio and shall oversee the short-term bond investment program to ensure the short-term cash is invested to meet the System's operating cash needs. The Managing Director of Fixed Income, with the assistance of investment consultants, as the Managing Director deems necessary, shall oversee the selection of external fixed income investment managers and monitor those external fixed income managers. The Managing Director of Fixed Income shall also oversee the purchase or sale of foreign currencies executed as the result of capital calls or distributions and the performance of the agent securities lenders, with an emphasis on monitoring the lenders' investment of securities lending cash collateral.
6. The Manager of the Finance Department shall maintain the official general ledger of the System, which is supported by various investment sub-ledgers and provide the System's financial statements.
7. The Manager of the Investment Information Department shall maintain the official investment accounting sub-ledgers and provide investment related reports.
8. The General Counsel shall provide legal advice regarding compliance with legal investment criteria and other legal issues and, together with the Managing Directors, review and approve investment contracts. Also, the General Counsel manages the Retirement System's Corporate Governance program including proxy voting consistent with adopted Policies.
9. The Actuary shall calculate all rates of return, and related performance data, for all assets in the portfolio.
10. The Manager of Internal Audit shall provide broad audit coverage of investment areas to provide management with information about the adequacy and effectiveness of internal controls and the quality of performance.
11. The Internal Investment Committee is an advisory committee to the Executive Director/CIO. The committee members include: the Executive Director/CIO; Investment Advisor; Investment Consultant; Managing Director of Private Equity; Managing Director of Fixed Income; Managing Director of Public Equities; and Managing Director of Real Estate.

The Committee reviews and recommends the following: Investment proposals, annual Asset Allocation report, annual Private Equity Strategic plan, and the annual Real Estate Strategic plan. The Committee receives periodic updates from internal investment staff, external investment managers, and external consultants.

- E. The Investment and Real Estate Advisory Committees are made up of industry professionals with appropriate experience and background and are appointed by the Retirement Board to provide advice to the Board on investment matters.
- F. An External Investment Manager/Advisor is a corporation, bank, insurance company, or other entity or firm retained to manage a portion of the System's assets under specified guidelines. An external manager may be engaged to invest in funds directly or may be engaged to hire other external investment managers operating as a fund-of-funds. Securities investment managers must be registered as Investment Advisors under the Investment Advisors Act of 1940, unless exempted from registration (e.g. banks, insurance companies, and affiliates). External investment managers/advisors may have discretion and authority within the parameters established by the Retirement Board and staff for determining and implementing investment strategy.



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- G. Broker-Dealers are firms that act as intermediaries in the purchase or sale of securities for internally or externally managed portfolios. As brokers, such firms facilitate trades by bringing together buyers and sellers of securities (in an agency capacity). As dealers, they act as the actual buyer or seller on the other side of the trade (in a principal capacity).
- H. The Statutory Custodian is head of the Division of the Treasury in the Department of Taxation and Finance and is designated by law as the Custodian of the System's assets except for loans to System members. All disbursements of System funds must be processed by the Statutory Custodian.
- I. The Custodial Bank is responsible for the safekeeping of securities and the accurate and timely reporting of the securities to the System in coordination with the Statutory Custodian.
- J. Consultants are persons or firms who are retained by the Retirement Board to provide professional advice to the System. In particular, the Retirement Board retains investment consultants for the following purposes:
 - 1. Make recommendations regarding changes in the current asset allocation policy, including recommending asset allocation targets, ranges, benchmarks, and additional investment classes;
 - 2. Assist in performing investment manager searches and recommend potential firms;
 - 3. Provide a qualitative and quantitative review of the performance of the external managers and make retention recommendations; and
 - 4. Provide educational assistance to the Retirement Board regarding investment matters and fiduciary duties.

IV. Controlling Statutes and Regulations

The Banking Law (§235), the Education Law (Article 11, §508), the Retirement and Social Security Law (Article 4-A, §§176 - 179), and such other laws which from time to time may be enacted, authorize or control investments by public retirement systems. Under such laws, the System may invest in issues of the United States Treasury and instrumentalities of the United States Government; high-grade corporate bonds; mortgage-backed securities; municipal securities of New York State and its political subdivisions or authorities; bonds of the Commonwealth of Canada and its political subdivisions or authorities; preferred shares; common stocks; deposits in savings banks; equity real estate; mortgage loans; foreign equities; and other permitted investments itemized in the laws of New York. These parameters, among other things, may specify limitations on the percentage of assets which may be invested by the System in various classes of assets.

In recent years, rules and policies were modified to enable writing of covered call options, venture capital investing, securities lending, and purchase of securities not registered under the Securities Act of 1933, provided such transactions are consistent with fiduciary responsibilities and requirements of the laws under which the System operates. Furthermore, the policies permit investment in limited partnerships, joint ventures, real estate investment trusts, real estate operating companies, group trusts, common trust funds, collective investment funds, investment companies (as defined under the Investment Company Act of 1940), life insurance separate accounts, and other vehicles established primarily for the purpose of investing in capital assets.

Under §177(9) of the Retirement and Social Security Law, and subject to guidelines adopted by the Retirement Board, up to twenty-five percent (25%) of assets may be invested in types of assets not



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otherwise specifically authorized, provided the Retirement Board is satisfied such investments are in accordance with the "prudent expert" rule. Additionally, Education Law §508(18) permits the Retirement Board to delegate its authority to invest to external investment managers/advisors pursuant to this Manual.

All assets will be valued at market to determine compliance with legal limits. Descriptions of the legal limits applied to each asset class are included in the sub-policy for those investments.

Pursuant to §508(3) of the Education Law, no member or employee of the Retirement Board may have any interest, direct or indirect, in the gains or profits of the System's investment portfolio. Nor may any such person receive, directly or indirectly, any pay or emolument (except, of course, for his/her normal salary) for any services rendered in connection with any of the System's investments.

Additionally, pursuant to §136-1.6 of the New York Codes, Rules and Regulations, the Retirement Board, as "administrative head" of the System, is a fiduciary. The Board shall act solely in the interests of the members and beneficiaries of the System and shall perform its responsibilities in a manner consistent with those of a reasonably prudent person exercising care, skill, and caution.

The Retirement Board and staff are subject to a Code of Ethics adopted by the System. Any member of the System's Retirement Board and any System employee who either participates in the Manager/Executive Plan or participates in the negotiating unit in a Grade 18 or higher title (including trainee titles, for which the target title is Grade 18 or higher) in the Real Estate, Fixed Income, Public Equities, Private Equity, and Investment Information Departments as well as the Procurement Office are required to submit an annual disclosure statement.

V. Objectives

All investment transactions undertaken on behalf of the System will be for the sole benefit of the members and their beneficiaries, for the exclusive purpose of providing benefits to them and defraying reasonable administrative expenses.

The System's long-term objective is to earn an average rate of return greater than the rate of return of representative indices for individual asset classes but no less than the actuarial assumption rate (currently 8.0% per annum). The indices are identified in Section VI. Asset Allocation Policy. Rates of return are net of fees and other expenses. Volatility of returns, or risk, for the System, as measured by standard deviation of investment returns, should be commensurate with the level of returns expected to be achieved over a long period of time.

VI. Asset Allocation Policy

Asset allocation is the definition of allowable asset classes and the distribution of assets among those asset classes. As fiduciaries, the Retirement Board has a duty to diversify the investments of the fund to reduce risk, while maximizing the investment return. Approximately ninety percent (90%) of the long-term total return of a fund is expected to be attributable to the asset allocation decision. The remaining ten percent (10%) is expected to be attributable to either selection of individual assets or timing. Accordingly, asset allocation is one of the most important fiduciary decisions.

The asset allocation chart, which follows, contains guideline percentages, at market value, of the System's assets to be invested in various asset classes. The target allocations may not be attained at any specific point in time as actual asset allocation will be dictated by current and anticipated market conditions as well as independent actions of the Retirement Board.



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Asset Allocation Targets

<u>Asset Class</u>	<u>Allowable Representative Index¹</u>	<u>Target Range</u>	<u>Percentage</u>
Domestic Equity	S&P Super Composite 1500	32 - 42%	37%
International Equity	MSCI EAFE Stock Index and ACWI EX-US Stock Index	14 - 22%	18%
Domestic Fixed	Income Barclays Capital U.S. Float Adjusted Aggregate Bond Index	13 - 23%	18%
Real Estate	National Council of Real Estate Investment Fiduciaries Open-End Diversified Core Equity Fund Index	6 - 14%	10%
Mortgages	U.S. Treasury Rate + Market Derived Spread ²	5 - 11%	8%
Alternative Investments	S&P 500 Stock Index (Plus 5%)	4 - 12%	7%
Global Bonds	Barclay's Global Aggregate Float Adjusted Bond Index (hedged)	0 – 3%	2%
Short Term Investments (Cash Equivalents)	iMoneyNet™ Fund Averages / All Taxable	0 - 5%	0%
			----- 100%

¹ Special benchmarks may be established for specialized products. For example, the benchmarks used for public real estate securities managers include the Wilshire REIT Index and FTSE/EPRA NAREIT indices, while benchmarks used for the externally managed CMBS program include the Barclays Capital U.S. Investment-Grade CMBS Index and BBB CMBS Indices. (Note : This index changed from the Lehman Investment-Grade CMBS Index to The Barclays Capital U.S. Investment-Grade CMBS Index in December 2008).

² Mortgage interest rates are priced by adding a market-derived spread to the U.S. Treasury rate for a maturity similar to the proposed mortgage. This mortgage interest rate is then compared to portfolio-wide return requirements as established by the System from time to time for suitability.

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- A. **Domestic Equity:** NYSTRS' benchmark for domestic equity portfolios, taken as a whole, is the S&P 1500 Stock Index. Within the domestic equity asset class, funds may be internally or externally managed. Internally-managed funds may be passively managed to the applicable benchmark or may follow enhanced strategies. Passive management is designed to achieve a minimal tracking error in matching performance of the index fund with the appropriate benchmark for that portfolio; enhanced strategies are typically designed to deliver a tracking error of up to 100 basis points, with the expectation of investment returns in excess of the benchmark. External managers are engaged in a variety of investment styles to diversify sources of investment return and to provide returns commensurate with risk taken. The strategic target allocation for the domestic equity portfolio is seventy-five percent (75%) passively managed, and twenty-five percent (25%) in enhanced and/or active strategies.
- B. **International Equity:** Within the international equity asset class, seventy-five percent (75%) is passively managed to the MSCI ACWI ex-US index³ and twenty-five percent (25%) is actively managed to the ACWI EX-US index. Passive managers passively manage country, currency, and security selection to simulate the returns and characteristics of the MSCI ACWI ex-US Stock Index. Active core managers actively manage country, currency, and security selection with the objective of outperforming the ACWI EX-US stock index, generally over a market cycle.
- C. **Other Assets:** All other assets are actively managed.
- D. **Reporting:** A quarterly report showing the current asset allocation status within the major asset classes, the status of the sub-allocations, and a summary of the principal funding initiatives are submitted quarterly to the Retirement Board by the Actuarial Department.
- E. **Annual Review:** The Retirement Board annually reviews the asset allocation relative to recent and historical investment experience and considers new developments. This includes a review and revision, where appropriate, of the long-term capital market assumptions regarding expected investment returns, standard deviations, and correlations.
- F. **Cash Flow:** The Executive Director/CIO, in consultation with the Internal Investment Committee, is responsible for allocating cash flow to planned program investments and targeted asset allocations while taking into account the operational cash needs of the System.

VII. Use of Derivatives

Derivatives may only be used to modify risk/return characteristics of the portfolio, implement asset allocation changes in a cost-effective manner, or reduce transaction costs or taxes. Derivatives may not be used for speculation or leverage (borrowing).

- A. **Internally Managed Portfolios:** The use of derivatives is currently limited to the Covered Call Option Program and Futures-Based Rebalancing. These programs are used in the System's internally managed domestic equity portfolios. The purpose of the covered call program is to modestly supplement System income by writing calls when appropriate. The purpose of the futures-based rebalancing program is to minimize asset allocation risk and reduce transaction costs relative to cash market trading. See the Domestic Equity Securities sub-policy Appendix A for Covered Call Option and Appendix C for Futures-Based Rebalancing Guidelines.

³ At its July 2011 meeting, the Board adopted the ACWI ex-US index as the benchmark for the international equity portfolios, replacing the EAFE index. All funds currently passively managed to the EAFE index will be transitioned to the ACWI ex-US in an orderly fashion.



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- B. Externally Managed Portfolios: The System's International Equity managers currently have authorization for a broader use of derivatives.

Contracts with separate account managers will identify the types of derivatives that may be used, consistent with this sub-policy and prudent discretion. Managers must notify the System of modifications in the types of derivatives used and obtain System approval of such modifications.

Investments in commingled funds are open to other investors; therefore, it is not possible for the System to insist that the managers of such funds abide by System policy regarding the use of derivatives. The Managing Director of Public Equities will review a manager's use of derivatives on an ongoing basis to determine whether continued investment in a fund is prudent.

VIII. Use of Commingled Funds

External investment managers/advisors retained by the Retirement Board may invest System assets in commingled funds, provided:

- A. Such investments in commingled funds (including bank collective investment trusts) are consistent with the guidelines established herein.
- B. Assets held in commingled funds are permissible investments for the System.
- C. Notification is given to the System describing the commingled vehicles utilized.

IX. Guidelines for Custodians

Timely and accurate completion of custodial functions is necessary for effective investment management and accurate record keeping. The following are responsibilities of the custodian(s) for the segments of the System's assets for which each custodian is responsible:

- A. Provide complete custody and depository service for the designated accounts.
- B. Implement in a timely and effective manner the investment actions as directed by the staff and external investment manager(s)/advisors.
- C. Collect all income and principal and properly report on the periodic statements.
- D. Provide periodic statements of holdings including all transactions and daily activity reports for the System.
- E. Provide daily reporting on cash activity and balances.
- F. Provide assistance to the staff to complete such activities as the annual audit and transaction verification.
- G. Indemnify the System for any non-market losses of stocks and securities held on behalf of the System.



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X. Other

A. Performance Measurement

The Retirement Board will review, at least semi-annually, the performance of the System's internally managed funds and each external investment manager's/advisor's portfolio relative to the objectives and guidelines described herein. Such a review will include organizational and technical capabilities and quarterly performance analysis relative to the appropriate benchmark.

B. Review and Modification of Policy

The Executive Director/CIO shall administer this Manual pursuant to the investment policies of the Retirement Board and shall review the Manual periodically to determine if modifications are necessary or desirable. Modifications shall be promptly communicated to all external investment managers/advisors and other responsible parties, as appropriate.

XI. Glossary of Common Investment Types

Investment in any particular instrument or security remains subject to applicable law and circumstances then prevailing. Notwithstanding, the most common investments are cited below:

- A. Alternative Investments are nontraditional investments, not covered by another investment class (e.g. private equity and venture capital).
- B. American Depositary Receipts (ADRs) are receipts for the shares of a foreign-based corporation held in the vault of a U.S. bank and entitling the shareholder to all dividends and capital gains. These are traded on various U.S.-based exchanges and are available for hundreds of stocks from numerous countries.
- C. Commercial Mortgage Backed Securities (CMBS) are multi-class bonds backed by pools of commercial mortgages.
- D. Commercial Mortgage Lending investments are notes and bonds secured by a mortgage or deed of trust providing a first lien on real estate.
- E. Derivatives are financial instruments such as forwards, futures, options, swaps, or other instruments whose values are "derived" from another financial instrument.
- F. Domestic Equity Securities for System purposes typically consist of corporate common stock. These stocks must be registered on a national securities exchange or must be otherwise registered as provided in the Securities Exchange Act of 1934 as amended, with price quotations furnished through a nationwide automated quotations system approved by the National Association of Securities Dealers, Inc. (NASD). Domestic Equity Securities also include stock in corporate real estate investment trusts (REITs), which are traded on a national exchange and acquired as part of an internally managed index fund or by one of the System's domestic equity managers.
- G. Domestic Fixed Income Securities are U.S. Treasury or Government agency obligations; equipment trust certificates; corporate, industrial, or utility bonds; U.S. dollar denominated Euro or Yankee bonds, including Canadian obligations payable in U.S. dollars; residential and commercial mortgage-backed securities; and pass-through certificates. For System purposes, domestic fixed

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- income securities primarily consist of instruments with maturities in excess of twelve (12) months at time of purchase.
- H. Emerging Market Equities are common or preferred corporate stocks and investment shares which are registered on recognized exchanges outside the U.S. Emerging market countries are the developing international countries which have a relatively low per capita Gross National Product. There is wide variety of economic, regulatory, and market development among the emerging countries.
 - I. Equity Real Estate Investments are any investments in real property, either made directly or through the use of pooled vehicles such as limited partnerships, open or closed-end commingled funds, Real Estate Investment Trusts (REITs) including publicly traded REIT securities, and Real Estate Operating Companies (REOCs).
 - J. International Equity Securities are common or preferred corporate stocks and investment trust shares. Only stocks registered on recognized exchanges outside the U.S. are to be considered International Equity Securities.
 - K. Real Estate Mezzanine Funds are investments in funds or partnerships whose portfolios consist of junior loans secured by real estate or partnership interests in real estate ownership.
 - L. Repurchase Agreements are agreements between a seller and a buyer, whereby the seller agrees to repurchase the securities at an agreed upon price and, usually, at a stated time.
 - M. Securities Lending occurs when the System transfers a security to a borrower for cash or non-cash collateral pursuant to an agreement to return the collateral for an identical security in the future.
 - N. Short-Term Investments (Cash Equivalents) include, but are not limited to, interest bearing or discount instruments such as money market funds; U.S. Treasury Bills; corporate-issued commercial paper; bank-issued Certificates of Deposit; bankers' acceptances; and fully collateralized repurchase agreements. For System purposes, short-term investments consist primarily of instruments maturing in twelve (12) months or less at time of purchase.

XII. Glossary of Indices Used by the Retirement System

- A. The iMoneyNet™ Fund Averages / All Taxable measures the total return of all major taxable money market funds and includes government, institutional, and special purpose funds.
- B. The National Council of Real Estate Investment Fiduciaries Open-End Diversified Core Equity Fund Index (NFI-ODCE) is a capitalization-weighted, gross of fee, time-weighted return index with an inception date of December 31, 1977. Open-end Funds are generally defined as infinite-life vehicles consisting of multiple investors who have the ability to enter or exit the fund on a periodic basis, thereby providing a degree of potential investment liquidity. The term "Diversified Core Equity" is a style that typically reflects lower risk investment strategies utilizing low leverage and generally represented by equity ownership positions in stable U.S. operating properties. The index includes property investments at ownership share, cash balances, and leverage.
- C. The Barclays Capital U.S. Float-Adjusted Aggregate Bond Index measures the total return of publicly issued, nonconvertible, dollar-denominated debt of the U.S. Government or any agency thereof, corporate securities, mortgage pass-through securities, Yankees, commercial mortgage backed securities, and asset-backed securities. Index returns are reported at full market value weight. The Aggregate index was created in 1986 with history built back to January 1976. (Note:

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- this index changed from The Lehman Brothers Aggregate Bond Index to The Barclays Capital U.S. Aggregate Bond Index in December 2008). With an inception date of July 1, 2009, the Float-Adjusted Aggregate excludes published net holdings of U.S. Treasuries, U.S. Agencies, and fixed rate MBS pass-throughs held in Federal Reserve System Open Market Account (SOMA) accounts.
- D. The MSCI EAFE Stock Index (unhedged) measures the total return of securities listed on the world's principal stock exchanges, including those in Europe, Australia and New Zealand, Southeast Asia, and the Far East. The inception date was January 1, 1970.
- E. The MSCI ACWI (All Country World Index) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. As of May 2011, the MSCI ACWI consisted of 45 country indices comprising 24 developed and 21 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States. The emerging market country indices included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. The term "free float" refers to the number of shares of stock publicly owned and available for trading.
- F. The S&P ADR Index measures the total return of eligible securities listed in non-U.S. regions which include Europe, Japan, Canada, Australia, Asia Pacific, and Latin America. The index is market capitalization weighted and only includes securities that can be traded and settled in the U.S.
- G. The S&P Super Composite 1500 Index measures the total return of 1,500 actively traded U.S. securities. The index is a combination of the S&P 500, S&P Midcap 400, and the S&P Smallcap 600 indices. The index is capitalization weighted and its members are U.S. companies.
- H. The Russell 1000 Index is made up of the highest ranking 1,000 stocks by capitalization of the Russell 3000 Index. These large capitalization stocks are further divided into Growth and Value components.
- I. The S&P 500 Stock Index measures the total return of 500 large capitalization common stocks. The index tracks industrial, transportation, financial, and utility stocks and is capitalization-weighted.
- J. The U.S. Treasury Rate measures the total return of negotiable debt obligations of the U.S. government, secured by its full faith and credit and issued at various schedules and maturities. For purposes of the System's commercial mortgage lending portfolio, mortgage interest rates are priced by adding a market-derived spread to the U.S. Treasury rate for a maturity similar to the proposed mortgage. This mortgage interest rate is then compared to portfolio-wide return requirements as established by the System from time to time for suitability.
- K. The Dow Jones Wilshire REIT Index measures the total return of a portfolio of publicly traded U.S. Real Estate Investment Trusts (REITs). The index is weighted by both full market capitalization and float-adjusted market capitalization.
- L. The FTSE EPRA/NAREIT Global (ex-US, unhedged) Real Estate Total Return Index measures the performance of listed real estate companies and real estate investment trusts (REITs) worldwide, excluding the United States. The index is a market capitalization weighted index, based on the last trade prices of shares of all eligible companies.
- M. The FTSE EPRA/NAREIT US Real Estate Index measures the industry-wide performance of U.S. real estate investment trusts (REITs) and listed real estate companies. The index is

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- weighted by equity market capitalization. All tax-qualified REITS with common shares traded on the NYSE, AMEX, or NASDAQ will be eligible, subject to minimum size, liquidity, and free-float adjustment criteria.
- N. The Merrill Lynch REIT Preferred Securities Index (7% Constrained) measures the performance of fixed-rate U.S. dollar-denominated preferred securities issued in the U.S. domestic market. The index is capitalization-weighted, based on their current amount outstanding, provided total allocation to an individual issuer does not exceed 7%. Issuers that exceed the limit are reduced to 7% and the face value of each of their issues is adjusted on a pro-rata basis. Similarly, the face values of issues of all other issuers that fall below the 7% cap are increased on a pro-rata basis. In the event there are fewer than fourteen (14) issuers in the Index, each is equally weighted and the face values of their respective bonds are increased or decreased on a pro-rata basis.
- O. The Barclays Capital Global Aggregate Float Adjusted Bond Index (hedged) The Global Aggregate was created in 1999 with an index history that was backfilled to 1990. The index provides a broad based measure of the global investment grade fixed rate debt markets and consists of three main components: the U.S. Aggregate; the Pan-European Aggregate and the Asian-Pacific Aggregate Index. The index is comprised of securities from the following primary sectors: Global Treasury; Government Related; Corporate and Securitized. To be eligible for inclusion, securities must possess the following traits: be fully taxable; fixed rate; investment grade; and be either senior or subordinated debt. The Barclays Global Aggregate Float Adjusted Index was inceptioned July 1, 2009 and excludes securities purchased and held by central banks as a result of quantitative easing (e.g. securities purchased by the Federal Reserve and held in their SOMA accounts).

XIII. Glossary of Acronyms and Other Terms

A. Acronyms:

BL: Banking Law

EL: Education Law

ERISA: Employee Retirement Income Security Act of 1974

NASD: National Association of Securities Dealers

NYCRR: New York Codes, Rules, and Regulations

REAC: Real Estate Advisory Committee

RFP: Request for Proposal

RSSL: Retirement and Social Security Law

SEC: Securities and Exchange Commission

STIF: Short-Term Investment Fund

B. Brokerage Terms:



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1. Directed Brokerage: refers to an arrangement where a certain dollar amount or percentage of trades is directed to designated broker-dealers. Negotiated brokerage, external commission recapture, and soft dollar arrangements are all forms of directed brokerage.
 - a. Negotiated Brokerage: refers to trades that are charged a negotiated commission rate resulting in lower up-front trading costs.
 - b. External Commission Recapture: an arrangement between the System, broker(s), and external manager(s), whereby, the manager(s) agree to direct a portion of commissions paid to broker(s) designated by the System, who agree to refund a portion of the commissions they receive from trading directly to the System. Receipt of these refunds can improve overall System returns through reduced costs.
 - c. Soft Dollar Arrangements: brokers establish an account for the Plan sponsor or its managers and pay certain Plan expenses or buy research services for the Plan or its manager directly from the commission activity in this account. This allows the Plan or its manager access to services and lowers direct cash expense since the Plan or its manager does not actually pay the service providers directly.
2. Recapture Rate: percentage of each commission dollar in a recapture program which is returned to the System. For a 1.5:1 recapture rate, the percentage of commission returned to the System would be sixty-seven percent (67%).

C. Covered Call Option Terms:

1. Covered Call Option: A contract allowing, but not requiring, the option holder to buy from the System a given number of shares of stock at a given price on or before a specific date. Once an option is written by the System, the underlying securities will be placed in an escrow account to "cover" the transaction. As evident by this definition, a particular call option will be characterized by two features:
 - a. Underlying Security: The stock which the option holder may buy.
 - b. Contract: Each option allows the option holder to buy one hundred (100) shares of the underlying security.
2. Exercise Price: The price at which the stock can be purchased by the option holder at any time up to the option's expiration date (sometimes referred to as strike price).
3. Expiration Date: The last day an option can be exercised. Contracts are usually traded in three, six, or nine-month contracts and expire on the first Saturday after the third Friday of its expiration month.
4. Intrinsic Value: The amount by which the stock price exceeds the strike price.
5. Premium: Value of the option or the market price that a buyer of an option pays the writer for rights conveyed by the option. The writer is entitled to retain this amount whether or not the buyer exercises the option. The premium is composed of two values, the intrinsic value and the time value.
6. Time Value: The excess of the option premium over the intrinsic value.

D. Risk Types:



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1. Credit Risk: The risk of default of any party owing cash to the System as the result of a transaction. These parties may include, but are not limited to, the counterparty and the issuer. Counterparty credit risk is negligible to the System for transactions cleared on a delivery versus payment (DVP) basis.
2. Liquidity Risk: There are two types of liquidity risk: market liquidity risk and funding liquidity risk. Market liquidity risk is the risk of being unable to purchase or liquidate a security quickly enough (or in requisite quantities) at a fair price. Market liquidity risk differs from market risk. Market liquidity risk only reflects realized price changes, while market risk reflects both realized and unrealized price changes. Funding liquidity risk relates to the relative ease of the organization to meet its cash flow needs as they come due.
3. Market Risk: The risk of unexpected change in market price (amount or direction). Price changes in securities can result from movements in equity markets, interest rates, and currency exchange rates. Market risk incorporates both realized and unrealized price changes.
4. Operational Risk: The risk of inadequate controls against fraud, incorrect market valuation, failure to record or settle a deal, settlement with the wrong counterparty, failure to collect amounts due, failure of the computer system, or enforceability of contracts. The implications of operational risk include both financial loss and loss of reputation.
5. Geo-Political Risk: The risk of the occurrence of an unanticipated international and/or domestic incident such as war, assassination, terrorism, or energy shock that adversely affects global and capital markets resulting in the re-pricing of securities.
6. Political Risk: The risk of nationalization or other unfavorable government action.
7. Idiosyncratic Risk: Firm specific risk or the risk of the change in a price of a security due to the unique circumstances of that security.
8. Basis Risk: The uncertainty as to whether the cash vs. futures spread will widen or narrow between the time a hedge position is established and closed.

E. Futures Terms

1. Asset Allocation Risk: The risk associated with being outside the asset class bounds or away from the target allocation.
2. Basis Risk: The risk resulting from pricing differences between the derivatives instrument and the underlying security.
3. Exchange Traded Index Futures: Standardized contracts traded on an organized exchange that are based on an Index (i.e. S&P 500, Russell 2000, etc). Counterparty risk is substantially reduced and transparency is increased due to the use of a central clearinghouse.
4. FCM Broker: Futures Commission Merchants (FCMs) are those authorized firms that clear Commodity Futures and Option trades.
5. Initial Margin: The amount a trader must deposit before trading any futures.
6. Maintenance Margin: The minimum amount of equity that must be maintained in a margin account.



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7. Margin Account: An account maintained with the FCM Broker to cover the daily mark-to-market transaction.
8. Margin Call: A broker's demand on an investor using margin to deposit additional money or securities so that the margin account is brought up to the minimum maintenance margin.
9. Notional Value: The total face value of the futures or options contract. This term is commonly used in the options, futures, and currency markets because a very small amount of invested money can control a large position (and have a large consequence for the trader). For example, one S&P 500 Index futures contract obligates the buyer to 250 units of the S&P 500 Index. If the index is trading at \$1,000, then the single futures contract is similar to investing \$250,000 (250 x \$1,000). Therefore, \$250,000 is the notional value underlying the futures contract



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POLICY TO ASSURE PRIVATE EQUITY FUND, REAL ESTATE FUND, AND EXTERNAL INVESTMENT MANAGER TRANSPARENCY AND ACCOUNTABILITY

I. INTRODUCTION

This policy implements certain recent policy decisions, as well as restates certain System policies already in place to guard against improper benefits accruing to System Retirement Board members, employees, and advisors. The goal of this policy is to assure that funds and managers are made aware of these policies and do not engage in conduct violating those policies.

II. LEGAL AUTHORITY

Section 508(3) of the Education Law expressly provides that no Retirement Board member or employee of the System shall have any interest direct or indirect in the gains or profits of any investment made by the System or receive directly, or indirectly, any pay or emolument for his or her services. Regulations of the Insurance Department (11 NYCRR §136-1.6) bar System Retirement Board members, employees, agents, and consultants from acting in any capacity in any transaction involving the System on behalf of a party whose interests are adverse to the System or its members, or from receiving any consideration from any party in connection with a transaction involving the System's funds or its assets.

III. BAN ON PLACEMENT AGENT CONTACTS

In order to preclude the possibility of any monies or other consideration being paid to or for the benefit of any System Retirement Board member, employee, or advisor in the guise of placement, finders, or similar fees, the System has determined to ban System contact with placement agents, finders, and similar intermediaries for the purpose of introducing a fund or external investment manager to the System or securing an investment by the System. Banning such contact will highlight to funds and external investment managers that there are no gatekeepers controlling access to System staff or consideration of their product by System staff.

A. General Rule

As a matter of policy, the System will not invest in any new fund or engage any investment manager in any new assignment where the fund or manager uses a placement agent or other intermediary for the purpose of interacting or communicating with the System to obtain an introduction of the fund or manager to the System or obtain the System's investment in the fund or engagement of the manager.

B. Implementation

Whenever System investment staff is considering investing in a new private equity or real estate fund or engaging an external investment manager for a new investment assignment, staff will communicate directly with general partners and/or principals of the fund or manager interested in doing business with the System.

Placement agents attempting to solicit business from the System on behalf of a fund or external investment manager are to be advised that the System will only communicate with the fund or external investment manager.



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IV. CONTRACT PROVISIONS

In order to assure transparency and accountability on the part of private equity and real estate funds and external investment managers, the following contract provisions will be included in the applicable contractual documents when the System is investing in a private equity or real estate fund or engaging an external investment manager. Typically, in the case of fund investments, the provisions will be included in a side letter executed by the fund.

The System's Legal Department has prepared model language for inclusion in fund side letters and manager contracts (Appendix A) and sample disclosure and certification language (Appendix B). Disclosures and certifications shall be made to each manager of the investment department responsible for the investment, the System's General Counsel, and the System's Internal Auditor, and will be made available prior to closing.

A. Placement Agent Disclosures

Funds and external investment managers will be required to disclose whether any fee, bonus, or other compensation was or will be paid to a placement agent, finder, or other intermediary in connection with the System's investment or external manager assignment.

The System's ban on contacts with placement agents in Part III does not necessarily preclude funds and managers from employing the services of placement agents to provide legitimate assistance to their marketing activities, including preparing private placement memoranda, provided such services do not involve contact with System Retirement Board members and staff. However, for the purposes of assuring that this policy is observed, funds and external investment managers must nonetheless disclose any placement agent involvement of any kind.

B. Certification That No Compensation Will Be Paid to System Retirement Board Members, Staff, Advisors, or Consultants

Funds and external investment managers will be required to certify compliance with current law that no fee, bonus, or other compensation of any kind has been or will be paid to any NYSTRS advisor or consultant, Retirement Board member or employee for the purpose of obtaining an introduction to NYSTRS or a favorable investment recommendation or providing any other assistance to the firm in connection with a NYSTRS investment.

If a fund or external investment manager has used a placement agent, the placement agent will also be required to certify that no fee, bonus, or other compensation of any kind has been or will be paid to any NYSTRS consultant, Retirement Board member, or employee for the purpose of obtaining an introduction to NYSTRS or a favorable investment recommendation or providing any other assistance to the firm in connection with a NYSTRS investment.

C. Compliance with System's Prohibition Against Gifts

Funds and external investment managers will be required to adhere to existing System policy barring the receipt by any NYSTRS Retirement Board member or employee of any gift having more than a nominal value under circumstances where it can be reasonably inferred that the gift was intended to influence the person in the performance of the person's official duties or to reward the person for any official action on the person's part.



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Should a fund or external investment manager have a question regarding the applicability of System's policy to specific circumstances, the manager of the investment department responsible for the investment shall consult with the System's Director of Human Resources and the System's General Counsel.

D. Compliance with System's No Revolving Door Certification

Funds and external investment managers will be required to abide by existing System policy not to employ or compensate, in any way, any System Board Member or employee for two (2) years after termination of the person's relationship with the System unless the person will have no contact with or will not provide any services to NYSTRS during the two-year period.

V. IMPLEMENTING PROCEDURES

- A. Applicable System investment staff shall be responsible for furnishing funds and external investment manager candidates with a copy of this policy. Additionally, applicable System investment staff shall, as part of their due diligence, ascertain whether the fund or external investment manager is ready, willing, and able to comply with the requirements of this policy and how they will answer the certifications required by this policy.
- B. Outside attorneys representing the System in any applicable transaction shall be furnished with a copy of this policy.
- C. The agreement of the fund or external investment manager, as applicable to the contract provisions required by Part IV of this policy shall be a condition precedent to the System's investment in the fund or engagement of the external investment manager, as applicable.

VI. EFFECTIVE DATE

This policy takes effect on May 21, 2009 and applies to all private equity and real estate funds investment commitments and to all new external investment manager assignments authorized by the System on or after that date. Nothing herein, however, is intended to suggest or imply that the statute, regulation, and policies applicable to System Retirement Board members, employees, consultants, and advisors referred to herein were not in full force at any time prior to the effective date of this policy.

For the purposes of transitioning to the policy, Part III will apply only to contacts with placement agents, finders, and similar intermediaries on or after May 21, 2009 in the case of private equity and real estate funds in the System's investment pipeline. The Managing Director of Private Equity and the Managing Director of Real Estate have prepared lists of funds in their pipelines as of May 21, 2009.

For the purposes of transitioning to the policy, System staff will also seek agreement from existing external investment managers to the contract provisions Part IV at the time their assignments are renewed.



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VII. RESPONSIBILITIES AND CONTROLS

Responsible Party	Action
System Investment Managing Directors	<ol style="list-style-type: none"> 1. Ensure funds and investment managers and outside attorneys are made aware of System policy regarding placement agents. 2. Communicate directly with general partners and/or principals of fund or investment manager. 3. Ensure side letter provisions incorporated as Appendix A are included in each contract with newly engaged Funds or investment manager.
Funds and External Managers	<ol style="list-style-type: none"> 4. Must comply with Placement Agent Disclosure requirements in connection with soliciting business from the System. 5. Must certify that no compensation will be paid to System Retirement Board, Staff, or Advisors. 6. Must comply with System prohibition against gifts. 7. Must comply with policy not to employ or compensate any System or employee for two (2) years after termination, unless the person will have no contact with nor provide any services to the System during the two-year period. 8. Provide all required certifications and disclosures by separate and direct correspondence to System Investment Managing Director, System General Counsel, and System Internal Auditor.
Legal Department	<ol style="list-style-type: none"> 9. With outside attorneys, create and approve certifications and disclosure language required of funds and/or investment managers. 10. Directly receive certifications and disclosure documents from fund or investment manager prior to closing.
Internal Audit	<ol style="list-style-type: none"> 11. Directly receive certifications and disclosure documents from fund or investment manager prior to closing.
Finance Department – Purchasing Unit	<ol style="list-style-type: none"> 12. Maintain an official copy of executed contract which includes certifications and disclosure documents.



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APPENDIX A – MODEL SIDE LETTER PROVISIONS

Transparency and Accountability Provision – Fund Investment

- (a) The General Partner (which term, for purposes of this provision, shall include the General Partner's Affiliates and the directors, partners, members, officers, and agents of the General Partner and such Affiliates) acknowledges that the Investor has provided it a copy of its written investment policy to assure transparency and accountability.
- (b) (1) The General Partner covenants and agrees that, at least five (5) business days prior to the date of closing of the Investor's purchase of an interest in the Partnership, the General Partner shall disclose in writing to the Investor (the "Fee Disclosure") whether any fee (including any portion of the management fee), bonuses, or other compensation has been paid or shall be paid by or on behalf of the General Partner to any placement agent, finder, or other individual or entity (other than the officers and employees of the General Partner) in connection with the Investor's commitment to purchase an interest in the Partnership **or in connection with the purchase of an interest in the Partnership by any other person** (hereinafter "Placement Agent"). The Fee Disclosure shall include the following:
- (i) If no fee, bonus, or other compensation has been or will be paid, the Fee Disclosure shall so state.
 - (ii) The General Partner shall represent and covenant that, except as disclosed in the Fee Disclosure, no such fee, bonus, or other compensation shall be paid at any time after the date of the Fee Disclosure.
 - (iii) The Fee Disclosure shall state the names of the individuals employed or otherwise engaged by the Placement Agent who provided material services resulting in a payment of a fee to the Placement Agent.
 - (iv) The General Partner shall represent and warrant that the Placement Agent was instructed not to contact any of the Investor's Retirement Board members or employees for the purpose (or with the effect) of obtaining an introduction to the Investor or a favorable recommendation or any other assistance with respect to the Investor's investment.
 - (v) The Fee Disclosure shall contain a representation by the General Partner that the Placement Agent rendered substantial services commensurate with the fee it earned.
 - (vi) If the Placement Agent is registered under the Investment Advisors Act of 1940, the Fee Disclosure shall also contain the actual disclosures required pursuant to Rule 206(4)-3 of such act.
- (b) (2) The General Partner shall further represent and certify in the Fee Disclosure that no fee, bonus, or other compensation of any kind or value has been paid or given or will be paid or given to any of the Investor's Retirement Board members or employees, or to any consultant or advisor of the Investor (including their Affiliates) for the purpose (or with the effect) of obtaining (i) an introduction to the Investor or any Retirement Board member, officer or employee of the New York State Teachers' Retirement System, or (ii) a favorable recommendation or any other assistance with



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respect to the making of this investment. A list of the Investor's consultants and advisors has been furnished to the General Partner.

- (b) (3) The Fee Disclosure (as well as the Placement Agent Disclosure required by (f) below) shall be addressed to:

[Name]
[Applicable Manager Title]
New York State Teachers' Retirement System
10 Corporate Woods Drive
Albany, NY 12211-2395
E-mail:

[Name]
General Counsel
New York State Teachers' Retirement System
10 Corporate Woods Drive
Albany, NY 12211-2395
E-mail:

[Name]
Internal Auditor
New York State Teachers' Retirement System
10 Corporate Woods Drive
Albany, NY 12211-2395
E-mail:

- (b) (4) The General Partner may omit from the Fee Disclosure fees and expenses paid to its counsel and accountants in connection with the organization of the Partnership and the offering of limited partnership interests therein, provided that such counsel and accountants have not also represented the Investor in connection with the formation of the Partnership and have not been involved in any form of solicitation relating to the Investor.
- (c) The General Partner represents and warrants that, to the best of its knowledge, all information contained in the Fee Disclosure will be true, correct, and complete in all material respects. If the General Partner determines at any subsequent time that the Fee Disclosure has become untrue or misleading in any material respect, the General Partner shall immediately amend, correct, and/or supplement the Fee Disclosure so as to state the true and complete facts. If the Investor determines that the Fee Disclosure contains a material inaccuracy or omission, the Investor may notify the General Partner in writing of such inaccuracy or omission, and the General Partner shall have the opportunity to cure such inaccuracy or omission within ten (10) days after receipt of notice from the Investor or two (2) Business Days before the first Capital Contribution is due, whichever is shorter.
- (d) If (i) the Investor does not receive the Fee Disclosure within the time period provided in paragraph (b) above, or (ii) the General Partner does not cure an inaccuracy or omission within the time period provided in paragraph (c) above, or the Investor determines that the Fee Disclosure contains a material inaccuracy or omission after the Investor has made its first Capital Contribution, the Investor shall have the option, in its sole discretion and without liability to the General Partner, any Partner or any third party, to cease making further Capital Contributions to the Partnership (without being deemed to be a Defaulting Limited Partner under the Partnership



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Agreement) and to pursue all remedies that may be available to the Investor under this letter agreement and the Partnership Agreement.

- (e) The Partnership shall not pay any placement fee unless such fees are fully offset by a reduction in management fees or fees otherwise payable to the General Partner under the Partnership Agreement
- (f) Additionally, the General Partner shall no later than five (5) days prior to the Closing deliver a certificate of the Placement Agent (the "Placement Agent Disclosure") in which the Placement Agent shall represent and warrant that no fee, bonus, or other compensation paid by or on behalf of the General Partner to or for the benefit of the Placement Agent has been or will be paid to or for the benefit of any of the Investor's Retirement Board members or employees or a member of the immediate family of any such person, or to or for the benefit of any consultant or advisor of the Investor (including their Affiliates) for the purpose (or with the effect) of obtaining (i) an introduction to the Investor or any officer or employee of the New York State Teachers' Retirement System, or (ii) a favorable recommendation or any other assistance with respect to the making of this investment by the Investor.
- (g) The General Partner agrees it will make no gift to any NYSTRS Retirement Board member or employee having more than a nominal value under circumstances where it can be reasonably inferred that the gift was intended to influence the person in the performance of the person's official duties or to reward the person for any official action on the person's part.
- (h) The General Partner agrees it will not employ or compensate in any way any System or employee for two (2) years after termination of the person's relationship with the System unless the person will have no contact with or will not provide any services to NYSTRS during that two-year period.
- (i) Notwithstanding anything to the contrary contained in the Partnership Agreement or this letter agreement, the General Partner agrees that the Investor may disclose the information contained in the Fee Disclosure or the Placement Fee Disclosure to the public.



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APPENDIX B – SAMPLE DISCLOSURE AND CERTIFICATION

Transparency and Accountability Disclosure and Certification - Fund

- (a) The undersigned General Partner acknowledges that the Investor has an investment policy that requires this Placement Agent Fee Disclosure and Certification. For purposes hereof, "General Partner Party" shall mean and include the General Partner, each affiliate of the General Partner, each member, shareholder, or partner of the General Partner or any of its affiliates, and each employee, officer, or director of any of the foregoing.
- (b) The General Partner represents, warrants, and covenants that (i) except as set forth on Schedule 1 attached hereto, no fees (including any portion of any management fee), bonuses, or other compensation of any type has been paid, or given, or will be paid, or given, by or on behalf of any General Partner Party to any placement agent, finder, or other individual or entity (hereinafter "Placement Agent") in connection with the Investor's commitment to purchase an interest in the Company or in connection with the purchase of an interest in the Company by any other Person; (ii) Schedule 1 accurately and completely describes the names of each individual who is, or is expected by the General partner to be, employed or otherwise engaged by the Placement Agent, if any, to provide material services resulting in the payment of any such fee to a Placement Agent; (iii) each Placement Agent, if any, which earned such a fee rendered substantial services commensurate with the fee earned by such Placement Agent; (iv) with respect to each such Placement Agent which is registered under the Investment Advisors Act of 1940 (the "Act"), the information on Schedule 1 accurately and completely contains all disclosures required pursuant to Rule 206(4)-3 of the Act in connection with the matters described Schedule 1; and (v) no fee, bonus, or other compensation of any kind or value has been paid, or given, or will be paid, or given, by or on behalf of any General partner Party to any of the Investor's board members or employees, or to any consultant or advisor of the Investor (including their Affiliates) for the purposes (or with the effect) of obtaining (i) an introduction to the Investor or any officer or employee of the Investor, or (ii) a favorable recommendation or any other assistance with respect to the making of the subject investment. A list of the Investor's consultants and advisors is attached as Schedule 2.
- (c) The General partner shall, immediately upon learning of the same, notify the Investor in writing of any breach of any representation, warranty, or covenant made by the General partner in this Placement Agent Fee Disclosure Statement.
- (d) Attached hereto as Schedule 3 is certificate for each Placement Agent, if any. The General partner has no actual knowledge of (i) any material inaccuracy in any of the attached Placement Agent Disclosure Notices or (ii) any omission in any such Placement Agent Disclosure Notice which would render the same untrue or misleading in any material respect. The General partner shall, immediately upon learning of the same, notify the Investor of any such matter.

[Name of General Partner]

By _____



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Transparency and Accountability Certification – Placement Agent

The undersigned represents, warrants and covenants with New York State Teachers' Retirement System (the "Investor") that no fee, bonus, or other compensation of any kind or value has been paid or given, or will be paid or given, by or on behalf of any Placement Agent Party (as defined below) to or for the benefit of any of the Investor's board members or employees, or to any consultant or advisor of the Investor (including their Affiliates) for the purposes (or with the effect) of obtaining (i) an introduction of the Investor or any officer or employee of the Investor, or (ii) a favorable recommendation or any other assistance with respect to the Investor's Investment in [Name of Fund].

For purposes hereof, "Placement Agent Party" shall mean and include the undersigned, each affiliate of the Placement Agent, each member, shareholder or partner of the undersigned or any of its affiliates, and each employee, officer or director of any of the foregoing.

Attached as Addendum A is a list of the firm(s) serving as the Investor's consultant(s) and advisor(s) in connection with this Investment.

[Name of Placement Agent]

By: _____



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Broker Selection

THIS SECTION CONTAINS TWO POLICIES:

- Selection and Evaluation of Brokers Executing Transactions for Internally Managed Portfolios
- Directed Brokerage



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**Selection and Evaluation of Brokers
Executing Equity Transactions for Internally Managed Portfolios**

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**Selection and Evaluation of Brokers
Executing Equity Transactions for Internally Managed Portfolios**

I. Purpose

This statement of broker selection and evaluation policy documents the principles and standards that guide the selection, evaluation and monitoring of brokerage firms in the trading of equity securities for the internally managed portfolios at the System. This policy is intended to be binding on all relevant persons who have responsibilities and authority with respect to management of these portfolios.

The purpose of this policy is to:

- A. State the objectives the Retirement Board judges to be appropriate and prudent for the selection of brokerage firms for trading securities for the System.
- B. Establish procedures and criteria that may be considered reasonable and prudent for the System.
- C. State the process for periodic evaluation and monitoring of brokerage firms utilized by the System for the trading of securities.
- D. Communicate these policies, objectives and criteria to all interested parties including the Retirement Board, staff, brokers, consultants and custodians.
- E. Operate as a review document.

II. Objectives

Principal objectives for establishing guidelines for the selection, evaluation and monitoring of brokerage firms in the trading of equity securities of the System's internally managed portfolios have been formulated with respect to the following considerations:

- A. To state criteria that can be used objectively for the selection of brokerage firms; and
- B. To state procedures for evaluating brokerage firms periodically.

III. Procedures and Criteria

All brokerage firms instructed to trade for the System's internally managed equity portfolios shall meet the requirements set forth below:

- A. Procedures for brokerage firm selection:
 - 1. Brokerage firms wishing to trade equity securities for the System on a regular basis must complete a questionnaire regarding their organizational structure, experience, resources, services, trading, level of compliance with the Broker-Dealer Investment Protection Principles (Appendix A) and client servicing capabilities. The information will be maintained by staff and updated and reviewed periodically. This survey will be reissued to and collected from all existing relationships at least every five (5) years. An abbreviated survey ascertaining compliance with criteria outlined in Item 2 of "Criteria for Approval" will be issued and collected annually;



**Selection and Evaluation of Brokers
Executing Equity Transactions for Internally Managed Portfolios**

2. Staff will be responsible for maintaining an approved list of brokerage firms meeting the criteria stated herein;
 3. Firms will be selected for their execution and the competitiveness of their fees. A firm's research capabilities will be considered where needed by the System;
 4. Women/minority/disabled-owned brokerage firms are encouraged to apply for consideration;
 5. Staff will have discretion to select among approved brokerage firms at the time of transaction;
 6. Staff may prudently select another brokerage firm at the time of transaction, if the circumstances then prevailing warrant use of that firm; and
 7. The approved list of brokerage firms which meet the criteria stated herein will be periodically reviewed and modified by staff. Brokerage firms not meeting standards of performance or conduct as described in the evaluation and review procedures of this policy herein may be suspended or be eliminated from the approved list.
- B. Criteria for Approval

Brokerage firms must meet the following minimum qualifications:

1. Maintain good financial standing;
2. Demonstrate appropriate regulatory controls over trades and business practices that are consistent with SEC and other applicable laws and level of compliance with the Broker-Dealer Investment Protection Principles (Appendix A). Gross negligence, proven criminal activities or sanctions and fines issued by a regulatory agency to the brokerage firm will result in review and suspension of trading activity and may result in permanent exclusion from conducting trades with the System;
3. Maintain acceptable standards of record-keeping to include timely and accurate confirmation of trades and proper use of the institutional delivery system of the Depository Trust Company;
4. Maintain acceptable record of timely delivery and payment on trades;
5. Possess trading experience for the types of securities to be traded.

**Selection and Evaluation of Brokers
Executing Equity Transactions for Internally Managed Portfolios****IV. Evaluation and Review Procedures**

The following steps shall be taken by staff:

- A. Periodic Reports: Staff will obtain periodic reports which supply critical information, such as the amount of trading activity per broker, market impact, commission rates and commission amounts. The reports will be examined to ascertain whether brokers are delivering best execution and competitive fees.
- B. Trading Activity Measurement: The staff will review annually with the Retirement Board the aggregate trading activity of the equity portfolio(s) managed by staff.
- C. Meetings and Reports: Brokerage firms which transact significant volume on behalf of the System and consultant(s) are expected to be available to meet with staff as required to review equity trading activity.
- D. Review and Modification: Modifications to this policy shall be promptly communicated to brokers, consultants and other relevant parties.
- E. Significant Events: Brokerage firms shall advise staff immediately if any of the following events occur within their organization:
 - 1. Any event which will have a material impact on the management, professionalism, integrity or financial position of the brokerage firm;
 - 2. A loss of one or more key people;
 - 3. A new trader(s) or client service representative(s) on the System's account;
 - 4. A change in ownership or control (whether through acquisition, disposition, spin-off, merger, consolidation, or otherwise) of the brokerage firm; and
 - 5. All instances of enforcement proceedings by the SEC, Financial Industry Regulatory Authority (FINRA) or other regulatory bodies against the brokerage firm.

V. Responsibilities & Controls

Responsible Party	Action
Managing Director of Public Equities or designee	<ul style="list-style-type: none">1. Proactively monitors the selection, evaluation and monitoring of brokerage firms in the trading of equity securities of the System's internally managed portfolios in accordance with policy goals and objectives.2. Maintains documentation supporting compliance with policy and periodic due diligence updates.



APPENDIX A

Broker-Dealer Protection Principles

Broker-dealers retained or utilized by the New York State Teachers' Retirement System (NYSTRS) should adopt the Broker-Dealer Protection Principles as summarized below. In retaining and evaluating any such financial organization, NYSTRS will give significant consideration to whether such organization has adopted the Protection Principles.

The Broker-Dealer Protection Principles are:

1. There should not be a link between compensation for analysts and investment banking;
2. The investment banking side of the business entity, if one exists, should not have input into analyst compensation;
3. A person or committee, in addition to the research analyst recommending the security, should review all research recommendations;
4. In the normal course of business, upon discontinuation of research coverage of a company, the termination of coverage and rationale for such termination should be disclosed;
5. For covered companies, the firm must disclose if the firm has knowledge of any material conflict of interest or has received, or is entitled to receive, any compensation from such company over the past twelve months; and
6. There should be a monitoring process to ensure compliance with the principles, and provide details of compliance, as requested.



NEW YORK STATE TEACHERS' RETIREMENT SYSTEM
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Directed Brokerage

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Directed Brokerage

I. Introduction

Directed brokerage occurs when the System directs its money manager(s) (internal and/or external) to trade a certain dollar or percentage amount of the System's public equity transactions through designated broker-dealers. Directed brokerage may include negotiated commissions, commission recapture, and soft dollar arrangements.

II. Purpose

The purpose of this policy is to allow for the use of certain forms of directed brokerage as a way of minimizing commission costs without adversely affecting execution.

III. Objectives

All public equity trading will be placed with the aim of obtaining the best execution at the best price.

IV. Management Structure

Managing Director of Public Equities or designee shall oversee the directed brokerage program:

- A. Commission levels for internally managed domestic equity portfolios are negotiated by staff.
- B. Soft dollar arrangements are not used for internally managed domestic equity portfolios.
- C. A commission recapture program for externally managed domestic equity portfolios is overseen by staff. Staff negotiates the targeted percentage of commissions to be subject to the program with external managers and negotiates the recapture rate with the brokers. Actual broker payments may differ from the negotiated targets.
- D. Investment managers/advisors shall use professional judgment in the selection of broker-dealers, the level of commissions paid and the value of other services provided by the broker-dealers to the managers for the benefit of the System and its beneficiaries.
- E. Investment managers/advisors are required as necessary to provide evidence that their trades are being executed with the lowest possible transaction costs.

V. Relevant Legal Authority

Employee Retirement Income Security Act of 1974 (ERISA) Technical Release No. 86-1 addresses the use of commission dollars by ERISA plans and supports the implementation of a directed brokerage program by pension plan fiduciaries.

VI. Risk Management

A. Market Risk

Market risk is the risk that negotiated commissions and/or commission recapture will adversely impact execution. This risk is controlled by periodically comparing transaction costs by manager and/or broker with similar industry trades.



Directed Brokerage

B. Operational Risk

The Communications and Responsibilities & Controls sections delineate the measures implemented to control operational risks.

VII. Communications

A. Retirement Board Reporting

The Investment Information Department will provide a quarterly report of recaptured commissions.

B. External Investment Manager/Broker Reporting

Each investment manager and broker participating in the commission recapture program will provide the Investment Information Department with a monthly summary of commission recapture activity.

VIII. Responsibilities & Controls

Responsible Party	Action
<u>Negotiated Commissions</u> Managing Director of Public Equities or designee	1. Periodically negotiate commissions for internally managed portfolios with brokers.
<u>Commission Recapture</u> Managing Director of Public Equities or designee	1. Determine the mix of brokers. Negotiate the percentage of commissions to be subject to the program and the recapture rate.
Participating External Investment Managers	2. Direct trades to participating brokers. 3. Report monthly on directed trades.
Participating Brokers	4. Report monthly on directed trades. 5. Remit monthly recapture amount.
Investment Information Department	6. Prepare monthly reports showing trades by participating managers and brokers. Reconcile reports with the reports from the managers and brokers. Investigate any exceptions. 7. Calculate the percentage of directed trades by broker and the percentage of recaptured commissions.
Managing Director of Public Equities or designee	8. Contact managers if recapture percentage targets are not satisfied.



Directed Brokerage

VIII. Responsibilities & Controls (continued)

Responsible Party	Action
Investment Information Department	9. Post amounts due, process payments from brokers, and follow-up on any past-due amounts. 10. Prepare quarterly summary of commission recapture activity.



NEW YORK STATE TEACHERS' RETIREMENT SYSTEM
INVESTMENT POLICY MANUAL

**Selection, Monitoring and Termination of
External Investment Managers for Publicly Traded Securities**

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**Selection, Monitoring, and Termination of
External Investment Managers for Publicly Traded Securities**

I. Introduction

In 1982, the Education Law was amended to authorize the Retirement Board to delegate the investment of System funds to external investment managers. Since that time, the Retirement Board has designated a portion of the System's funds and assets to be managed externally, including by investment managers specializing in equities, bonds and other publicly traded securities. An external investment manager for publicly traded securities is hired with the expectation that the manager will, over the long run, add value relative to an appropriate benchmark to the assets under management and help diversify the System's portfolio, or, in the case of passive management assignment, match the risk and return profile of the benchmark. Potential external securities investment managers must pass a selection process designed to select those who are the most appropriate, based upon established criteria.

An external securities investment manager may be engaged to invest funds directly or may be engaged to further hire other external securities investment managers operating as a fund-of-funds or as a manager of managers.

The Managing Director of Public Equities, with the assistance of investment consultants, as the Managing Director deems necessary, shall oversee the selection of external public equity investment managers and monitor those managers.

The Managing Director of Fixed Income, with the assistance of investment consultants, as the Managing Director deems necessary, shall oversee the selection of external global fixed income investment managers and monitor those managers.

The Managing Director of Real Estate, with the assistance of investment consultants as the Managing Director deems necessary, shall oversee the selection of external managers for publicly traded equity real estate securities and external managers for commercial mortgage backed securities (CMBS) and monitor those external managers as specified in the Real Estate Investment policies.

II. Selection

Whenever System investment staff is considering engaging an external investment manager for a new investment assignment, staff will communicate directly with the principals of the investment manager interested in the assignment, in order to assure transparency and accountability on the part of the external investment managers.

The selection process for external publicly traded securities managers will typically involve consultation with the System's general investment consultant. The investment consultant independently monitors investment managers including assessment of the external managers' organization, investment products, teams and performance.

The selection process continues as follows:

A. Determination of Screening Criteria

Screening criteria may include, but is not limited to: investment processes; investment products; dollar value and composition of assets under management; historical performance; years of experience; growth of firm; other client relationships (including experience with large public funds); ownership; the number and depth of investment professionals; research



**Selection, Monitoring, and Termination of
External Investment Managers for Publicly Traded Securities**

capabilities; structure of the proposed investment (separate account, commingled account, etc.); compliance with the Chartered Financial Analyst Institute Code of Ethics; compliance with global investment performance standards (GIPS); and contract provisions. Other criteria may be added for any given search.

B. Preliminary Screening

1. Staff, and/or the investment consultant identify a preliminary list of firms which meet the initial set of screening criteria.
2. Staff and/or the investment consultant contacts each firm on the preliminary list to obtain the most current information and any additional information, as required. Follow-up telephone calls, interviews, or on-site visits are made, as necessary.
3. Based upon the established criteria, staff and/or the investment consultant narrows the preliminary list to a candidate pool.

C. Candidate Pool

1. Staff and/or the investment consultant conduct a more in-depth interview with each candidate. The interview allows for the interaction with and evaluation of the person or persons who will actually be investing the System's assets. Interview topics include:
 - a. Investment process;
 - b. Qualifications of the firm's representatives, including the portfolio management team;
 - c. Communication with the firm;
 - d. Employee compensation;
 - e. Availability of the contact person and portfolio manager to meet with the Retirement Board and staff and responsiveness to Board and staff concerns;
 - f. Validation of performance continuation of key individuals who will be responsible for fulfilling assignment;
 - g. Accommodation of the System's priorities;
 - h. Potential areas of conflict (Retirement Board policy, statutory, custodial, etc.); and
 - i. Fee discussions.
2. Quantitative analyses are conducted in addition to the qualitative analyses above. For instance, in the case of public equity assignments, the Public Equities Department performs a quantitative analysis of the proposed equity security portfolio(s) strategy. This analysis will include performance attribution and risk management
3. As a result of the interviews and the quantitative analysis of the portfolio(s), the investment consultant and/or staff selects candidates to be interviewed by the System's Internal Investment Committee.

D. Internal Investment Committee



**Selection, Monitoring, and Termination of
External Investment Managers for Publicly Traded Securities**

1. Investment managers recommended by the investment consultant and/or staff make presentations to the System's Internal Investment Committee.
 2. The System's Internal Investment Committee selects the investment managers to be interviewed by the Retirement Board.
- E. Retirement Board Interviews of Investment Managers
1. Presentation to the Investment Committee
 - a. Each finalist submits an informational package, which is mailed to the Retirement Board prior to the presentation.
 - b. Each finalist makes a presentation to the Investment Committee of the Retirement Board.
 - c. A question and answer period follows each presentation.
 - d. The Investment Committee makes a recommendation to the Retirement Board regarding each investment manager.
 2. The Retirement Board selects the investment manager(s) to be retained by the System.

III. Contract Review

Once an external securities investment manager is selected, a written investment management agreement is executed appointing the manager. Care is taken to ensure the terms of the contract accurately reflect the terms and conditions of the Retirement Board's authorization. The process may involve highly specialized contract provisions and protracted negotiations. Staff may retain outside counsel to assist in the contract process. Investor Protection Principles are incorporated into the Investment Management Agreement and contract documents as appropriate.

IV. Monitoring

The staff monitors each external securities investment manager to ensure investment policy guidelines are being followed and to determine if the System continues to be confident with the external securities investment manager's ability, using the stated style, to add value relative to an appropriate benchmark to the assets under management.

The objective criteria for monitoring the external securities investment manager are agreed upon at hire and may be specified in the contract between the external securities investment manager and the System. The criteria include investment performance, adherence to the stated investment style and thesis, diversification ratios, industry mix, and credit quality of fixed income assets, if applicable, as well as various subjective criteria, such as the impact of key resignations or firm acquisitions/mergers.

The System may engage an investment consultant to aid in the review of external securities investment managers. This consultant shall submit periodic reports and provides advice regarding the impact of various changes at the external securities investment manager's firm.

The review consists of the following:



**Selection, Monitoring, and Termination of
External Investment Managers for Publicly Traded Securities**

A. Monthly Performance Review

1. External managers of publicly traded securities are responsible for submitting monthly portfolio appraisals, including positions and valuations to the System.
2. Holdings of public securities of investment managers who are managing System assets in a separate account are held by the System's custodian. The Investment Information Department (IID) updates holdings for these managers daily and reconciles to the fund manager and the custodian monthly.
3. A summary of the performance calculation, prepared by the System's Actuarial Department, is sent monthly to each (equity, real estate and fixed income) external securities investment manager for their review and reconciliation.

B. Quarterly Reviews

1. Staff meets, as necessary, with fund managers on a quarterly basis either by telephone, videoconference, or in person, to review portfolio performance and to discuss any changes to process, staffing or the fund manager's organization or any other items as warranted.
2. For those fund managers that participate in commingled securities lending programs, staff receives reports describing changes to the lending parameters if any, the average market value of the securities on loan, the collateralization percentage, and the credit quality and liquidity of the reinvestment pool.
3. A fund-of-funds manager(s) or manager of managers reports on the investment activity and performance for the managers within the fund.

C. Periodic Review

External securities investment managers are expected to meet with the Retirement Board (Investment Advisory Committee or Real Estate Advisory Committee, as applicable) and the staff, upon request. Minutes of the Retirement Board, Investment Advisory Committee or Real Estate Advisory Committee will reflect the investment matters reviewed.

D. Annual Contract Renewal

As applicable, the investment consultant submits a formal recommendation regarding the renewal of the investment manager's contract. Staff reviews the recommendation and presents it to the Retirement Board. The manager must attest to the level of compliance to the Money Managers Investment Protection Principles (Appendix A).

E. Special Review As Needed

Staff and the investment consultant(s) review information as it becomes available and meet with the external securities investment manager as required. Each external investment manager has the responsibility to inform the System, quickly and accurately, about any event that may adversely impact to a significant degree the management, professionalism, integrity, or financial position of the external investment manager, such as:

1. Personnel changes:
 - a. Loss of one or more key professionals at the firm-wide or portfolio team level;



**Selection, Monitoring, and Termination of
External Investment Managers for Publicly Traded Securities**

- b. Changes in responsibility, including the addition of key professionals firm-wide or at the portfolio team level; or
 - c. Significant changes at the firm, whether or not they impact the team assigned to NYSTRS' portfolio.
2. Changes in ownership, control, or organizational structure, whether through acquisition, disposition, spin-off, merger, consolidation, or otherwise.
 3. Changes in the assets under management: (i.e. an external investment manager is hired with a proven track record at a particular level of invested assets. Subsequent relationship losses may increase the pressure on the external investment manager not to lose the System as an account. Alternatively, the gain of a significant number of accounts may overburden the investment personnel, force the external investment manager to alter the investment style, or decrease the importance of the System as an account, to the point where communication or performance suffers.)
 4. Any material change in the investment process or philosophy.
 5. Concerns about the securities lending portfolios, for those managers that participate in a commingled securities lending program.
 6. Other developments having a significant impact such as litigation or regulatory inquiries.

The investment consultant may serve as an additional source for this information.

V. Watch List

The System maintains a Watch List of those managers for whom the Retirement Board has concerns about their ability to add value to assets under management. The managers on the Watch List are subject to additional review based on the particular circumstances of the fund manager and the reason(s) the fund manager was placed on the Watch List.

The Retirement Board may place an external investment manager on the Watch List as a result of any of the following concerns:

- A. Significant or persistent underperformance compared to the fund manager's mandate;
- B. Indication that the manager is assuming more risk than appropriate in an attempt to achieve a higher short-term return;
- C. Key personnel or structural changes that may impact the manager's ability to manage the portfolio effectively;
- D. Changes in investment style or process or risk composition, which may affect performance, or the portfolio's fit within the overall asset allocation; or
- E. Any other circumstances creating a concern over the external securities investment manager's ability to perform as hired.

The Retirement Board may remove an external investment manager from the Watch List at any time if the concerns have been resolved and the Retirement Board has confidence the external investment manager will add value to the assets under management.



**Selection, Monitoring, and Termination of
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VI. Termination of External Investment Managers

External investment managers serve at the pleasure of the Retirement Board. The Retirement Board retains the right to dismiss a manager within the notice provision stated in the investment management agreement, which is typically no more than thirty (30) days written notice. The Retirement Board evaluates the performance of the external investment manager annually, or more frequently when necessary.

A. Annual Evaluation

The decision to retain or terminate an external investment manager is part of the annual contract renewal process. As part of this process, the System's investment consultant will make a formal recommendation, including the rationale upon which the recommendation is made. The recommendation is reviewed by staff and presented to the Retirement Board. The recommendation will be part of the permanent record.

B. Special Evaluation

A dramatic loss of confidence during the contract year could result in a contract termination by the Retirement Board.

VII. Responsibilities & Controls

Responsible Party	Action
<u>MANAGER SELECTION:</u>	
Retirement Board	1. Determine that a fund manager search is warranted.
Managing Director of Public Equities, Managing Director of Fixed Income, Managing Director of Real Estate or designees and/or the Investment Consultant	2. Develop screening criteria; consults with Investment Consultants as needed.
Managing Director of Public Equities, Managing Director of Fixed Income, Managing Director of Real Estate or designees and/or the Investment Consultant	3. Designate staff to perform preliminary screening of investment firms.
Managing Director of Public Equities, Managing Director of Fixed Income, Managing Director of Real Estate or designees and/or the Investment Consultant	4. Review results of the preliminary screen. Directs the Investment Consultant to follow-up on open questions as necessary or performs this process internally.



**Selection, Monitoring, and Termination of
External Investment Managers for Publicly Traded Securities**

VII. Responsibilities & Controls (continued)

Responsible Party	Action
	5. Select candidates based on the results of the preliminary screening and the Investment Consultant's recommendation.
Managing Director of Public Equities, Managing Director of Fixed Income, Managing Director of Real Estate or designees and/or the Investment Consultant	6. Perform due diligence, including a quantitative analysis of the strategy.
Designated Staff and Investment Consultant	7. Conduct in-depth interviews with each quarter finalist, allowing for interaction with and evaluation of the person or persons who will be investing System assets. 8. Select investment managers to be interviewed and reviewed by the Internal Investment Committee (IIC). 9. Contingent upon the approval of the IIC, present investment managers for consideration by the Retirement Board.
Investment Committee of the Retirement Board	10. Interview and recommend investment managers to be hired, or directs staff to continue the search process.
Retirement Board	11. Formally approves hiring of investment managers or directs staff to continue the search process.
Administrative Assistant to the Executive Director/CIO	12. Document, in the Board minutes, approval to hire the investment manager as appropriate.
Managing Director of Public Equities, Managing Director of Fixed Income, Managing Director of Real Estate or designees with Legal	13. Ensure contract with investment manager includes key elements, such as: a product description, key terms, fee structure, deliverables, and reporting criteria.
<u>MONITORING:</u> Manager of External Public Equities, Managing Director of Fixed Income, Managing Director of Real Estate or designees	14. Receive reports from investment managers on a quarterly basis, including holdings, performance attribution, and affirmation of compliance with investment guidelines. 15. Review monthly, quarterly and since inception performance as prepared by the Actuarial department.

**Selection, Monitoring, and Termination of
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	<p>16. Meet, either by telephone, videoconference or in person, with investment managers as necessary on a quarterly basis to discuss portfolio performance, any changes to process, staffing or the manager's organization, or any other items as warranted. Documents meeting by filing meeting materials and any notes in paper form or electronically.</p> <p>17. Communicates any significant concerns to Executive Director/CIO.</p> <p>18. Document meetings and other monitoring activities by filing meeting materials and any notes in paper form or electronically.</p> <p>19. Concerns will be shared with Retirement Board as appropriate.</p> <p>20. If warranted, recommend, together with the General Investment Consultant, that the manager be placed on the Watch List. Reason(s) for recommendation shall be documented.</p>
Retirement Board	<p>21. Based on recommendations of the General Investment Consultant and/or the Managing Director of Public Equities, Managing Director of Fixed Income or Managing Director of Real Estate, as applicable, or designee, determines whether investment manager should be placed on the Watch List.</p>
Administrative Assistant to the Executive Director/CIO	<p>22. Document, in Board minutes, placement of investment manager on the Watch List.</p>
Managing Director Public Equities, Managing Director of Fixed Income, Managing Director of Real Estate or designees	<p>23. Inform investment manager, verbally, that investment manager has been placed on the Watch List, and reason for this action.</p>
Executive Director/CIO	<p>24. Inform investment manager, in writing, that investment manager has been placed on the Watch List, and reason for this action.</p>
Managing Director Public Equities, Managing Director of Fixed Income, Managing Director of Real Estate or designees	<p>26. If concerns are resolved, recommend, together with General Investment Consultant that fund investment manager be removed from the Watch List. Reason(s) for recommendation shall be documented.</p>
Retirement Board	<p>27. Based on recommendations of the General Investment Consultant and/or the applicable Managing Director of Public Equities, Managing Director of Fixed Income, or Managing Director of Real Estate or designee, determines whether fund</p>



**Selection, Monitoring, and Termination of
External Investment Managers for Publicly Traded Securities**

	investment manager should be removed from the Watch List.
Managing Director Public Equities, Managing Director of Fixed Income, Managing Director of Real Estate or designees	28. If concerns are resolved, recommend, together with General Investment Consultant that manager be removed from the Watch List. Reason(s) for recommendation shall be documented.
Retirement Board	29. Based on recommendations of the General Investment Consultant and/or the applicable Managing Director of Public Equities, Managing Director of Fixed Income or Managing Director of Real Estate or designee, determines whether investment manager should be removed from the Watch List.
Administrative Assistant to the Executive Director/CIO	30. Document, in Board minutes, removal of investment manager from the Watch List.
Managing Director Public Equities, Managing Director of Fixed Income, Managing Director of Real Estate or designees	31. Inform investment manager, verbally, that investment manager has been removed from the Watch List.
Executive Director/CIO	32. Inform investment manager, in writing, that investment manager has been removed from the Watch List.
<u>MANAGER TERMINATION:</u> Retirement Board	33. Based on recommendations from the General Investment Consultant and the applicable Managing Director or designee, determines that investment manager should be terminated.
Administrative Assistant to the Executive Director/CIO	34. Document, in Board minutes, termination of investment manager.
Managing Director Public Equities, Managing Director of Fixed Income, Managing Director of Real Estate or designees	35. Inform investment manager, verbally, that investment manager has been terminated and reason(s) for this action.
Executive Director/CIO	36. Inform investment manager, in writing, that investment manager has been terminated and reason(s) for this action.



APPENDIX A

Money Manager Protection Principles

NYSTRS will give consideration in retaining, evaluating, and renewing equity managers as to whether such managers, to the extent reasonably possible, substantially conform to the following:

The Money Manager Protection Principles are:

1. Money management firms must disclose any client relationship, including management of corporate 401(k) plans, where the money manager could invest NYSTRS' assets in the securities of the client. Disclosure should be made in such a way as to not violate any confidentiality agreement.
2. Money management firms must disclose annually the manner in which their portfolio managers and research analysts are compensated and have safeguards in place to ensure that such compensation programs do not influence investment decisions.
3. Money management firms shall report annually the percentage of commissions paid, relating to NYSTRS' assets, to broker-dealers that have adopted the Broker-Dealer Protection Principles.
4. Money management firms affiliated with banks, investment banks, insurance companies, or other financial service corporations shall have safeguards in place to ensure that the client relationships of any affiliate company do not influence investment decisions of the money management firm, provide NYSTRS with a copy of the safeguard plan, and certify annually that such plan is being fully enforced.
5. In making active investment decisions, money management firms must consider the quality and integrity of the accounting and financial data and the corporate governance policies and practices of the subject company, as well as whether the company's outside auditor also provides consulting or other services to the company.



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Selection, Monitoring and Termination of Real Estate Advisors

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Selection, Monitoring and Termination of Real Estate Advisors

I. Introduction

The goals and objectives contained in the System's Equity Real Estate Policy Manual¹ (dated 10/99) outline an investment approach which is one of active participation by the System in the investment decision process while accessing third-party professional real estate expertise. An external real estate Advisor is hired with the expectation that it will, over the long term, add value to the assets under management. Potential Advisors must pass an extremely rigorous selection process designed to select those which are the most appropriate, based upon established criteria. This policy shall apply to the selection of new Advisors only and is not applicable to the allocation of additional business to an existing Advisor.

II. Selection

The procedure for selecting an Advisor begins with a decision by staff to hire an Advisor, typically to pursue a specific investment strategy so as to further diversify the System's portfolio.

Whenever System investment staff is considering investing in a new investment fund or engaging a separate account manager, staff will communicate directly with general partners and/or principals of the fund or manager interested in doing business with the System, in order to assure transparency and accountability on the part of private equity and real estate funds and external investment managers.

At the time staff decides to begin the selection process, it may utilize the existing real estate consultant to assist in the selection. The consultant maintains a database, which contains information regarding the organization, investment products and investment performance of potential Advisors.

The selection process continues as follows:

A. Determination of Screening Criteria

Screening criteria includes, but is not necessarily limited to: investment products; assets under management; historical performance; growth of the firm; other client relationships; ownership; the number and depth of investment professionals; research capabilities; and internal controls.

B. Preliminary Screening

1. If utilized, the consultant conducts a search of its database and identifies a preliminary list of Advisors which meet an initial set of criteria. Included in this search are any firms which have been suggested by members of the Retirement Board and staff, as potentially meeting the established criteria.

Initial screening criteria may involve those items outlined in Section II A.

2. Based upon the established criteria, staff and the consultant, if utilized, select the most qualified for further analysis, which may include issuing a Request for Proposal (RFP).

¹ Reproduced in this Investment Policy Manual as the Equity Real Estate Investments subpolicy.



Selection, Monitoring and Termination of Real Estate Advisors

C. Second Stage

The staff reviews the material submitted by respondents and selects the most qualified respondents for interviews.

D. Third Stage

1. An in-depth interview is conducted with each of the finalists. The interview allows for interaction with and evaluation of the person(s) who will actually be investing the System's assets. Topics include responses to specific questions in the Request for Proposal (RFP), as well as the following:
 - a. Investment process;
 - b. Enthusiasm of the firm's representative;
 - c. Communication with the firm;
 - d. Availability of the contact person and portfolio manager to meet with the Retirement Board and staff;
 - e. Accommodation of System priorities; and
 - f. Potential areas of conflict.
2. As a result of the interviews, staff selects the firm which is most qualified to perform the desired function.

E. Final Selection

1. Staff and, if necessary, the consultant, will make a presentation of the finalist's credentials to the Internal Investment Committee (IIC) and Real Estate Advisory Committee (REAC) for its review. The finalist may be asked to appear before the IIC and REAC to make a presentation.
2. The REAC will make a recommendation to the Investment Committee of the Retirement Board if it is satisfied with staff selection of an Advisor.

III. Monitoring

Staff monitors the Advisor with respect to specific objective criteria, such as investment performance, as well as various subjective criteria, including the impact of key personnel moves. The general focus of the review is to determine if the System is confident with the Advisor's continuing ability, using the stated style, to add value to the investments under management.

The System may utilize its real estate consultant to aid in the review of the Advisor. This consultant submits reports as necessary and also provides advice regarding the impact of various changes at the Advisor's firm.

The review consists of the following:

A. Performance Review



Selection, Monitoring and Termination of Real Estate Advisors

The Advisor is responsible for submitting monthly and quarterly reports as specified in the Equity Real Estate Policy Manual.

B. Special Review As Needed

Staff reviews information as it becomes available and meets with the Advisor and the System's consultant as required. Each Advisor has the responsibility to inform the System quickly and accurately about any information which impacts its relationship with the System. The consultant serves as an additional source for this information.

C. Meetings and Reports

Advisors are expected to meet with the Retirement Board (or the Real Estate Advisory Committee) and staff, upon request. Minutes of official/formal meetings with the Retirement Board and Real Estate Advisory Committee, reflecting the investment matters reviewed, will be kept.

IV. Watchlist

The System maintains a Watchlist which includes those Advisors about whom the Retirement Board or staff has concerns with regard to their ability to add value to assets under management. Advisors on the Watchlist are subject to more intense scrutiny.

An Advisor may be placed on the Watchlist as a result of any of the following concerns:

- A. Underperformance compared to the Advisor's mandate;
- B. Indication the Advisor is assuming more risk than appropriate in an attempt to achieve a higher short-term return;
- C. Key personnel or structural changes that may impact the Advisor's ability to manage effectively;
- D. Illegal activity; or
- E. Any other circumstances creating a concern over the Advisor's ability to perform as hired.

The Retirement Board may remove an Advisor from the Watchlist at any time if concerns have been resolved and the Retirement Board has confidence that the Advisor will add value to the assets under management.

V. Termination

Advisors serve at the pleasure of the Retirement Board. The Retirement Board retains the right to dismiss an Advisor with thirty (30) days written notice, or as contractually agreed.



NEW YORK STATE TEACHERS' RETIREMENT SYSTEM
INVESTMENT POLICY MANUAL

Stock Proxy Voting

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I. Introduction

A proxy is a written power of attorney given by a shareholder of a corporation, authorizing a specific vote on its behalf, at corporate meetings. A proxy will normally pertain to election of members of the corporation's board of directors, or to various resolutions submitted for shareholder approval.

II. Purpose

The System's Stock Proxy Voting policy has been established to protect the System's long-term investment interests and to promote responsible corporate policies and activities which enhance a corporation's financial prospects.

III. Management Structure

The Stock Proxy Voting policy is managed internally by the General Counsel and his staff. Ballots and accompanying analysis are received electronically from an independent analytical service and voted in accordance with these guidelines. Those issues which do not fall within the guidelines, or which may require a modification of the guidelines, are submitted to the System's Internal Proxy Committee. The Internal Proxy Committee is chaired by the Executive Director/CIO and includes the General Counsel, Associate General Counsel, Managing Director of Public Equities, and the Manager of External Public Equities. Should a sensitive issue arise which is not included in the established guidelines, the Internal Proxy Committee is authorized to exercise its best judgment in voting such issue and shall submit its decision to the Retirement Board at the Board's next meeting.

IV. Proxy Voting Guidelines/Definitions

When voting proxies, the System generally supports management if management's position appears reasonable, is not detrimental to the long range economic prospects of the company, and does not tend to diminish or truncate the rights or prerogatives of shareholders. When new issues arise, a decision from the Proxy Committee of the Retirement Board is requested.

Proxy proposals are divided into the following general categories: management issues, executive compensation, shareholder rights, anti-takeover measures, and social issues.

A. Management Issues: Management issues which involve routine corporate operational and administrative issues are generally voted with management.

1. Auditors/CPA: Companies are not legally required to allow shareholders to ratify the selection of auditors. However, even if not required, many companies seek shareholder ratification of auditors. The most important issue relating to auditors selection is the independence of the auditing process. The auditor's independence from the firm being audited reduces the potential for abuse. The SEC has defined "independent" as an accountant's ability to act with integrity and objectivity. The regulations explain that an auditor "must act in an unbiased and objective manner and he must be free of any financial or other interest which would create the perception that he may not be independent."
2. Annual Meetings: Issues relative to the general logistics of annual meetings such as location, time frequency, selection of firms to count ballots, etc., are reviewed on a case-by-case basis.



3. Corporate Contributions: The System supports the concept of corporate philanthropy, when such philanthropy is in the best interests of the corporation and general public.
4. Board Related Matters: Requirements for Board membership are, within reason, considered a management prerogative and the System generally supports management's candidates for Board membership. The System believes an independent Board of Directors with members selected outside of management is beneficial to the overall effectiveness of corporate operations and supports proposals calling for outside directors. Votes on nominees should be made on a case-by-case basis. Votes should be withheld from directors who:
 - a. Fail to adequately fulfill their assigned duties; this may include, but not be not limited to, poor compensation or governance practices or the reporting of significant internal control weaknesses;
 - b. Attend less than seventy-five percent (75%) of the board and committee meetings without a valid excuse for the absences;
 - c. Implement or renew a poison pill without shareholder approval;
 - d. Ignore a shareholder proposal that is approved by a majority of the votes cast for two (2) consecutive years, or more than sixty-six percent (66%) in a single year;
 - e. Have failed to act on takeover offers where the majority of the shareholders have tendered their shares;
 - f. Are not independent and sit on the audit, compensation, stock option, nominating, or other committee which should be comprised solely of independent directors;
 - g. Engage in significant related-party transactions with the company or have interlocking relationships which appear to affect their objectivity; or
 - h. Serve on more than four (4) other public company boards or serve on two (2) other public company boards while serving as a chief executive at a public company.

While the System does not feel ownership of stock in a corporation is necessary for Board membership, the System does support reasonable stock ownership plans for directors.

The System generally votes for shareholder proposals asking that the Chairman of the Board and CEO positions be separate; unless the company has strong countervailing governance structure, such as, a designated lead director elected by and from the independent Board members with clearly delineated duties.

5. Stakeholder Proposals: Stakeholder proposals permit directors, when taking action, to weigh the interest of constituencies other than shareholders in the process of corporate decision making. These proposals allow directors to consider nearly any factor they deem relevant in discharging their duties.

The System does not support "stakeholder proposals," which give corporations broad discretion when considering business propositions. "Stakeholder proposals" can easily result in the replacement of shareholder rights by the interests of other constituencies and the System believes the interests of the shareholder should normally override those of other constituencies.



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6. Preemptive Rights: The System generally does not favor the maintenance or restoration of preemptive rights. Preemptive rights require a corporation to offer rights to existing shareholders when new shares are issued, so as to allow these shareholders to retain the same percentage ownership in the company as held prior to the new offering. The System feels, in an era of high capitalization, little purpose is served by preemptive rights, and providing such rights is costly to the companies.
 7. Linked or Bundled Proposals: The System does not support proposals which link unrelated issues or bundle multiple issues in one proposal. These proposals often link or bundle proposals that benefit the shareholder with proposals that do not.
 8. Limiting of Liability and Increasing Indemnification: The System favors management's right to limit the liability of, and to increase indemnification for, its directors.
 9. Increased Authorized Common Stock: The System reviews requests for additional common stock on a case-by-case basis. The System will support authorization for additional common stock when required for financing or other legitimate corporate purposes. Generally, the System opposes increases of more than one hundred percent (100%) of the authorized shares.
- B. Executive Compensation: The System generally supports management's right to provide compensation plans intended to motivate management unless a shareholder resolution is submitted to correct an obvious abuse in executive compensation.

Under the Omnibus Budget Reconciliation Act of 1993, publicly held corporations can no longer deduct compensation paid to their top officers in excess of \$1 million annually unless the payment relates to the attainment of productivity goals. To keep this deduction, a corporation must submit its executive compensation plan to shareholders in a proxy proposal which includes the plan's terms, eligibility, and performance goals. The plan must be approved by a majority vote of the shareholders.

1. Performance Measures: The System supports reasonable compensation programs which are tied to objective performance measures. To be considered reasonable, the compensation package must not be excessive in terms of incentives for superior performance on an absolute basis or relative to industry peers.
2. Stock Option Plans: The System believes stock option plans should be used solely for the purpose of motivating corporate personnel. In all cases, stock option plans are reviewed on a case-by-case basis. The following are various types of stock option plans and the System's position on each.
 - a. The System generally supports reasonable incentive stock option plans predicated on individual performance.
 - b. The System supports reasonable stock options to outside directors.
 - c. The System generally supports employee stock option plans available to all employees offered at no less than eighty-five percent (85%) of market price.
 - d. A plan with a four percent (4%) shareholder dilution, or less, is usually supported. In excess of this percentage, an allowable dilution cap is adjusted for company size, performance, and cash pay to executives.
 - e. The System does not support option plans to key personnel offered at below market price.



Stock Proxy Voting

- f. The System does not support corporate loans to key personnel to purchase stock options.
 - g. The System does not support providing broad authority to a company's Compensation Committee to grant incentive programs. This broad authority usually bypasses shareholder approval.
 - h. The System supports certain stock option plans which offer stock appreciation rights. Those plans allow individuals to receive the difference between the option and the market price without acquiring ownership of the stock.
 - i. The System does not support stock options which allow pyramiding. Pyramiding is a form of cashless exercise, similar to stock appreciation rights. It involves repeated simultaneous exchanges of an individual's existing appreciated shares for a larger number of new shares under the option plan.
 - j. The System does not support a compensation plan that permits the repricing of underwater stock options without seeking shareholder approval.
3. Change of Control Payments (Golden Parachutes): Change of Control Payments are compensation arrangements that pay corporate managers after they leave their positions. The System reviews these arrangements on a case-by-case basis. The System opposes unusually favorable compensation structures established in advance of the sale of a company.
 4. Golden Coffins: A Golden Coffin is a death-benefit package awarded to the heirs of high ranking executives who die while still employed with a company. The System opposes Golden Coffins and other payment structures not tied to actual service to the Company.
 5. Advisory Votes on Executive Compensation: The System is in favor of shareholder proposals establishing the right to vote on executive compensation structures. Voting shall be advisory in nature.
- C. Shareholder Rights: The System does not support management proposals which tend to limit or diminish the System's rights as a shareholder.
1. Confidential Voting: The System supports shareholder resolutions calling for secret ballots.
 2. Cumulative Voting: The System votes for shareholder resolutions to establish cumulative voting for directors and against management proposals to end existing cumulative voting plans. Most corporations provide that shareholders are entitled to cast one (1) vote for each director for each share owned, the so-called "one share, one vote" standard. Cumulative voting for directors permits shareholders to distribute the total number of votes in any manner when electing directors.
 3. Unequal Voting Rights Plan: The System opposes any proposal to establish unequal voting rights plans since they tend to reduce the voting power of public shareholders and enhance the control of management.
 4. Bylaw Amendments: Generally, shareholders have the right to propose amendments to a company's bylaws unless prohibited by the charter. Some companies have adopted provisions to limit or eliminate the right of shareholders to propose bylaw amendments. The System opposes any proposal to limit or eliminate shareholder rights to propose bylaw amendments.



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5. Charter/Certificate of Incorporation: The System does not support proposals by management to change the state of incorporation in order to take advantage of laws more favorable to management interests as opposed to shareholder interests.
 6. Access to Management's Proxy: The System generally supports proposals which ask management to allow large shareholders equal access to management's proxy in order to discuss and evaluate management's director nominees and/or nominate and discuss shareholders nominees to the board. The System is generally in favor of resolutions that reform access, provide disclosures to identify sponsors of shareholder resolutions, and especially efforts on behalf of shareholders with the SEC to achieve access to management proxies.
 7. Shareholder Request for Reports: The System opposes these requests if such information is readily available to the shareholders or is too costly to provide.

D. Anti-Takeover Measures:

1. Classified Boards: A classified board is one in which the directors are divided into separate classes, with one class of directors elected each year, thus providing for staggered terms. The only real motive for board classification is to make it more difficult to change control of the board.

The System opposes the creation of staggered or classified boards, and votes against management efforts to create them and in favor of shareholder proposals to abolish them.

2. Fair Price Provisions: Fair price provisions prevent two-tier offers in which a buyer offers a premium price for only enough shares to obtain a controlling interest of a company. The common requirement of a "fair price" is to pay minority shareholders at least as much per share as the offerer paid to gain a controlling position of the company.

The System supports fair price provisions provided no other anti-takeover provision is included. Quite often, fair price provisions require a supermajority vote to circumvent the pricing guidelines. The System will vote against the provisions with supermajorities proposed by management and for shareholder resolutions to reduce supermajority percentages.

3. Greenmail: When a company's management buys back a block of the company's stock held by a shareholder deemed to be a "threat" to the company (or to management's tenure) the transaction is often called the payment of greenmail. The System opposes the payment of greenmail and supports shareholder resolutions to end this practice.
4. Poison Pills (Shareholder Rights Plans): Poison pills are a wide variety of provisions adopted by boards, without shareholder approval, to make it financially unattractive for a shareholder to purchase more than a small percentage of the company's stock. The System:
 - a. Supports shareholder resolutions calling for corporations to submit Poison Pills to shareholder votes.
 - b. Generally supports shareholder resolutions calling for corporations to rescind Poison Pills.
 - c. Opposes management proposals to create Poison Pills, when submitted to a vote.



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- d. Will review company proposals to determine if they might benefit shareholders over the long run, especially for chewable pills.
 5. Stock Authorization Increasing Authorized Common or Preferred Shares: The System does not support such increases when the increased stock is issued in a private placement as an anti-takeover measure. The System also opposes any type of increase in blank check preferred stock.
- E. Social Issues:
1. Animal Testing: The System votes on a case-by-case basis on proposals to restrict the use of animals in product testing.
 2. Economic Conversion: The System does not support shareholder resolutions asking companies to report on plans to diversify or convert to the production of civilian goods and services in lieu of military production. We believe this should be a management decision.
 3. Environmental Issues: The System supports shareholder requests for information when the information requested is reasonable, is not otherwise readily available to the shareholder, can be obtained by the corporation without excessive expense, and will not subject the corporation to liability. The System does not support shareholder proposals when the information requested is available in other forms. The CERES Principles will be voted on a case-by-case basis. The System is concerned about the environment and will express that concern when appropriate.
 4. Work Place Standards: Votes are made on a case-by-case basis. The System will support a reasonable request for corporate accountability of human rights standards in the workplace.
 5. Northern Ireland: The System supports shareholder resolutions relating to the corporate activities in Northern Ireland with regard to the MacBride Principles.
 6. Tobacco: Public pension funds are facing increasing pressure to divest their portfolios of tobacco stocks. The System supports and will vote in favor of reasonable proxy proposals directed at spinning off non-tobacco related components. The System also supports shareholder proposals aimed at advertising, labeling, diversifying, and anti-smoking campaigns. The Retirement Board is concerned about the sale and use of tobacco products; however, its action must be consistent with overriding fiduciary responsibilities and consideration of the economic impact of the vote.
 7. Sudan: Public pension funds are facing increasing pressure to divest their portfolios of companies doing business in Sudan. The Retirement Board is deeply concerned with atrocities and human rights violations that have been occurring in Sudan. The System supports efforts which urge the government of the United States to compile and publish a list of companies with business dealings or operations in Sudan which might be supporting the atrocities and human rights violations in that region. The System will support and vote in favor of reasonable proxy proposals relating to aiding the victims in that region; however, its actions must be consistent with the overriding fiduciary responsibilities and consideration of the economic impact of the vote.

V. Risk Management

- A. Market Risk: Most domestic equity positions held by the System are significant in size, and occasionally corporate governance activity reflected in proxy voting has the ability to



Stock Proxy Voting

influence the market price of the respective corporations' securities. Therefore, the System makes every attempt possible to maintain a low profile.

- B. **Operational Risk:** The Stock Proxy Voting policy is a tool used by the System to uphold its fiduciary responsibility. Proxies are voted with a focus on maximizing long-term earnings. For this reason, economic issues override social or political issues except where significant social or political questions exist and more specific policy determinations have been made. The Communications and Responsibilities & Controls sections will delineate the measures implemented to control operational risks.

VI. Communications

Retirement Board Reporting:

- A. The General Counsel or his designee will provide a report to the Retirement Board annually, showing the number of proxies voted, by category; how the System voted (for or against); and the result of the vote.
- B. The Internal Proxy Committee shall report to the Retirement Board at the quarterly meeting following any decisions required of this committee.

VII. Responsibilities & Controls

Responsible Party	Action
The General Counsel or designee	<ol style="list-style-type: none"> 1. Receive Proxy Statement from company and proxy materials from proxy service. 2. Review proxy materials. 3. If the issue is sensitive, request guidance from the Internal Proxy Committee, chaired by the Executive Director/CIO. 4. If the issue is not clearly defined in the proxy guidelines, request guidance from the Proxy Committee of the Board. 5. Vote proxies according to guidelines, and obtain advice when needed, from the Internal and Board Proxy Committees. 6. Prepare proxy report for the Board, annually. 7. Update proxy voting guidelines (contained within this policy) for Board approval annually.
Retirement Board	<ol style="list-style-type: none"> 8. Review annual proxy report received from the Investment Department. 9. Review proxy voting guidelines annually.



NEW YORK STATE TEACHERS' RETIREMENT SYSTEM
INVESTMENT POLICY MANUAL

Short-Term Investments (Cash Equivalents)

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I. Introduction

The short-term portfolio provides for the temporary investment of the System's cash flow and consists primarily of instruments maturing in twelve (12) months or less at the time of purchase.

II. Purpose

- A. To provide liquidity for the timely payment of benefits and/or fees and expenses.
- B. To enhance the System's income.
- C. To provide for the temporary investment of System funds until investment in other targeted vehicles is made.

III. Performance Objective

The objective of the management of the short-term investment portfolio is to maximize yield consistent with the safety of principal and maintenance of liquidity. The benchmark is iMoneyNet™ Average/ All Taxable.

IV. Management Structure

Strategic liquidity planning over a twelve-month horizon is done monthly in coordination with the Executive Director/CIO, and the Internal Investment Committee. A cash flow projection prepared by Investment Information estimates the major sources and uses of cash and amount available to invest after consideration of annuitant payroll and planned investments targeted to asset allocation goals.

The Fixed Income Department is responsible for ensuring short-term liquidity (cash) is available to meet the obligations of the System and to assure optimal investment of any cash balance over the period within the guidelines described herein.

Management of short-term liquidity requires planning, communication, and coordination across all investment activities. The Investment Information Department's cash control unit receives notification of all investing activity and projects the three-day cash receipts and disbursements and net balance available to invest. The Fixed Income Department uses this information and the cash flow projection to ensure monies are available on a daily basis and to project the System's cash needs as far as possible into the future and makes investments accordingly.

Custodial Relationship

- A. All short-term investments are maintained in the custody and safekeeping of the System's bank custodian. This is accomplished pursuant to a contractual agreement among (i) the NYS Treasurer, as statutory custodian, (ii) the actual bank custodian, and (iii) the System.
- B. Pursuant to said Agreement, settlement instructions are communicated by the System to the bank custodian for execution.



V. Legally Permissible Investments

Subject to determination by the Internal Investment Committee that an investment is prudent, the following investment vehicles are statutorily permissible and may be considered for the System's funds:

- A. Obligations of the U.S. or those for which the faith of the United States is pledged to provide for the payment of the interest and principal. [Banking Law (BL) 235(1)].
- B. Obligations of any federal home loan bank or banks, or of the Tennessee Valley Authority, and obligations of, or instruments issued by or fully guaranteed as to principal and interest by, Fannie Mae, or Freddie Mac, and notes, bonds, debentures, mortgages, and other evidences of indebtedness of the United States Postal Service. [BL 235(15)].
- C. N.Y.S. obligations, issued pursuant to the authority of any law of the state, or those for which the faith of this state is pledged to provide for the payment of the interest and principal. [BL 235(2)].
- D. Obligations of or those for which the faith of any city, county, town, village, school district, water district, sewer district, or fire district in this state is pledged to provide for the payment of principal and interest, provided that they were issued pursuant to law and the faith and credit of the issuing municipal corporation or district is pledged for their payment. [BL 235(4)].
- E. Bonds and debentures or other obligations of any public authority or commission or similar body created or approved by the State of New York having assets of not less than \$50 million. [BL 235(4)].
- F. Certificates of deposit issued by a bank, trust company or national bank whose principal office is located in this state or a banking corporation organized under the laws of the U.S. or of any state thereof whose deposits are insured by an agency of the U.S., or an agency or branch located within the U.S. of a foreign banking corporation with total worldwide bank assets in excess of \$1 billion, subject to such regulations as the banking board may impose. Additionally, certificates must be payable in U.S. dollars at an office of a banking institution located in the U.S. [BL 235(12-a); 3 Codes, Rules and Regulations of the State of New York (NYCRR) Part 72].
- G. Bankers' acceptances which are eligible for purchase in the open market by federal reserve banks and which have been accepted by a bank, a trust company, a private banker, or an investment company, or by a banking corporation which is organized under the laws of the U.S. or of any state thereof and which is a member of the federal reserve system. The aggregate investment for acceptances shall not exceed five percent (5%) of the System's assets. [BL 235(12)].
- H. Commercial paper, including short-term obligations of industrial companies, finance companies, insurance companies, utilities, and banks which meet the legal investment standards for these individual instruments.
- I. Obligations payable in U.S. funds which at the time of investment are rated investment grade by two (2) nationally recognized rating services or by one (1) nationally recognized rating service in the event that only one such service rates such obligations, provided that the aggregate amount invested in the obligations of any single issuer may not exceed two percent (2%) of the assets of the System or five percent (5%) of the direct liabilities of the issuer unless the obligations are issued by the U.S. or are those for which the faith of the U.S. is pledged to provide payment of the interest and principal. [Retirement and Social Security Law (RSSL) §177(1-a)].



- J. Agreements for the repurchase of securities and commitments to invest System funds provided the underlying securities are eligible investments and the custodian requirements of RSSL §178-a are satisfied.
- K. Other securities meeting legal investment criteria.

VI. Risk Management

A. Market Risk:

- 1. Diversification: The short-term portfolio is expected to contribute to the diversification of the overall portfolio in a limited manner, since its asset allocation target is zero percent (0%) with an allowable range of 0-5%. Within the short-term portfolio itself, diversification is ensured by:
 - a. At the time of investment, limiting the total holdings in any one issuer of Certificates of Deposits (CDs), Bankers Acceptances and Commercial Paper to no more than five percent (5%) of the short-term portfolio or \$50 million, whichever is greater.
 - b. Staggering maturities.
- 2. Credit Rating Restrictions: In order to safeguard principal from undue risk by investing only in instruments of the highest quality, the following restrictions shall apply:
 - a. Any short-term obligation acquired for the short-term portfolio shall be rated no lower than A-1 by Standard & Poor's or P-1 by Moody's Investor Service.
 - b. The senior debt of the issuer, if any, shall be rated no lower than A by Standard & Poor's or A2 by Moody's Investor Service.
- 3. Maximum Maturity: The maximum maturity of any short-term obligation shall not exceed thirteen (13) months (unless floating rate securities are purchased, in which case their maximum final maturity shall be three (3) years with a three-month maximum reset period).

B. Liquidity Risk:

- 1. Funding liquidity risk is controlled by staggering maturities within the short-term portfolio.
- 2. Market liquidity risk is controlled by the techniques addressed above under Market Risk.

C. Credit Risk:

- 1. All short-term securities are settled on a delivery versus payment basis.
- 2. Repurchase Agreements with any one counter-party may not exceed ten percent (10%) of the short-term portfolio or \$200 million, whichever is greater.
- 3. Credit rating restrictions (as described under the Market Risk section) are intended to reduce the likelihood of issuer default.

D. Operational Risk:

- 1. Investments in Repurchase Agreements shall be made pursuant to an agreement or agreements between the System and an external investment manager or managers.



Such agreements must be reviewed and approved by both the Fixed Income and Legal Departments. Appropriate restrictions on the type of collateral, pricing, substitution, and monitoring value will be imposed on these investments.

2. Short Term Investments are subject to the same policy found in the Addendum: Fixed Income Broker-Dealer Selection and Evaluation. This addendum documents the principles and standards that guide the selection, evaluation and monitoring of firms transacted with for the purchase or sale of securities by staff for the internally managed fixed income portfolios at the System
 3. The Communications and Responsibilities & Controls sections will delineate the measures implemented to control operational risks.
- E. Additional risk control techniques may be considered for other securities meeting the legal investment criteria.

VII. Communications

Retirement Board Reporting:

- A. The Investment Information Department reports all short-term investment purchases and sales on a monthly basis.
- B. The Investment Information Department provides a summary report of the short-term investment portfolio at the end of each quarter, for inclusion in the minutes of the Investment Committee of the Retirement Board.
- C. Each quarter, the Actuarial Department provides a summary of performance.

VIII. Responsibilities & Controls

Responsible Party	Action
Investment Information Department	1. Determine dollar amount of funds available for short-term investing, each business day; inform Fixed Income Department.
Fixed Income Department	2. Determine maturity requirements. 3. Document market prices and data obtained from a third-party information provider. Using this market information, solicit competitive prices from Broker / Dealers who meet the criteria outlined in the Fixed Income Broker Dealer Selection & Evaluation Policy. 4. Select investments and execute trades that comply with law and policy and meet current System needs. 5. Approve all transactions. 6. Communicate transaction detail to Investment Information Department.



VIII. Responsibilities & Controls (continued)

Investment Information Department	7. Communicate trade information to Custodian Bank. Verify correct securities were received or delivered; resolve any discrepancies. 8. Perform all investment accounting and reporting, applying appropriate accounting controls.
Executive	9. Approve warrants to disburse funds.
Finance Department	10. Receive signed warrant from Executive and forward to NYS Treasurer.
NYS Treasurer	11. Record payment.
Finance Department	12. Post warrant to General Ledger and retain executed copy.
Custodian Bank	13. Settle trades and pay or receive funds only after trades settle. Payment of funds will only be made against actual receipt of securities purchased. Settle maturities and credit account at maturity.
Investment Information Department	14. Reconcile System holdings to custodial position monthly. 15. Provide copy of this reconciliation to NYS Treasurer.
Actuarial Department	16. Calculate and review performance, monthly.



NEW YORK STATE TEACHERS' RETIREMENT SYSTEM
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Domestic Fixed Income Securities

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Domestic Fixed Income Securities

I. Introduction

The System's domestic fixed income portfolio invests primarily in instruments having a maturity greater than twelve (12) months. A fixed income security normally pays a fixed rate of return over a defined period of time. The System's fixed income portfolio is intended to invest in those fixed income securities which will provide predictable long term cash flows from interest payments and maturities.

II. Purpose

- A. To obtain maximum investment return while protecting capital.
- B. To make investments that will support the retired liability of the System, consistent with current economic and market conditions.

III. Performance Objective

- A. Internally Managed Portfolios: The portfolio is to earn, over one (1) or more market cycles, an average annual total rate of return that meets or exceeds that of the Barclays Capital U.S. Aggregate Float Adjusted Bond Index.
- B. Externally Managed Portfolios: The System has engaged outside managers to invest in Commercial Mortgage Backed Securities (CMBS). The investment guidelines will allow the managers to invest in U.S. Treasuries and Agencies to manage the portfolio's duration. Additionally, certain of the System's CMBS managers may invest up to twenty percent (20%) of their allocation in investment grade rated debt of Real Estate Investment Trusts (REITs) as market opportunities arise. The objective of the externally managed funds is to exceed the Barclays Capital U.S. Investment-Grade CMBS Index.

IV. Management Structure

- A. Internally Managed Portfolios: The core domestic fixed income portfolio is managed internally. At Internal Investment Committee meetings the Executive Director/CIO, the Managing Directors and Managers from Real Estate, External Public Equities, Private Equity, Public Equities, Fixed Income, and Investment Information, shall discuss, on a regular basis, market conditions, the levels of nominal interest rates, the real rates of return, the shape of the yield curve, the relative value of various market sectors, issuance of new debt, secondary market supply, and long-term retired liability cash flow requirements, along with other variables, in an effort to determine the most attractive strategy for committing funds consistent with this policy.
- B. Externally Managed Portfolios: The external CMBS managers are limited to investment grade tranches and operate under guidelines contained in their respective management agreements. The mandate is based on a modified total return concept which involves limited position trades. This strategy is reviewed regularly with the managers. Hiring of external managers is covered under a separate policy.

Custodial Relationship

- A. All domestic fixed income securities are maintained in the custody and safekeeping of the System's custodian bank. This is accomplished pursuant to a contractual agreement among



Domestic Fixed Income Securities

(i) the NYS Treasurer, as statutory custodian, (ii) the actual bank custodian, and (iii) the System.

- B. Pursuant to said Agreement, settlement instructions are communicated by the System to the bank custodian for execution.

V. Legally Permissible Investments

Subject to determination by the Internal Investment Committee that an investment is prudent, the following investment vehicles are statutorily permissible and may be considered for the System's funds:

- A. Obligations payable in U.S. funds which at the time of investment are rated investment grade by two (2) nationally recognized rating services or by one (1) nationally recognized rating service in the event that only one such service rates such obligations, SEC Registered if the issuer is incorporated outside the U.S.(not required as it relates to subparagraph E. hereof), provided that the aggregate amount invested in the obligations of any single issuer may not exceed two percent (2%) of the assets of the System or five percent (5%) of the direct liabilities of the issuer unless the obligations are issued by the U.S. or are those for which the faith of the U.S. is pledged to provide payment of the interest and principal. [Retirement and Social Security Law (RSSL) §177(1-a)].
- B. Notwithstanding the two percent (2%) limitation stated above, the System may invest not more than two and one-half percent (2.5%) of its assets in the obligations of any one (1) railroad or industrial corporation, or any one (1) corporation engaged directly and primarily in the production, transportation, distribution, or sale of electricity or gas or the operations of telephone and telegraph systems or waterworks or in some combination thereof. [RSSL §177(1)(e)].
- C. In no event, may more than thirty percent (30%) of the System's assets be invested in bonds of electric and gas corporations, as defined in §235(13) of the Banking Law (BL). [RSSL §177(1)(f)].
- D. Equipment trust certificates, subject to the provisions of the Banking Law, and not to exceed five percent (5%) of the assets of the System. [RSSL §177(1)(d)].
- E. Obligations of the Dominion of Canada, of any province of the Dominion of Canada, and of any city of the Dominion of Canada, payable in U.S. funds, provided that the aggregate unpaid principal amount of all such obligations at any time held by the System shall not exceed five percent (5%) of the System's assets. [RSSL §177(1)(c)].
- F. Obligations of the United States and New York State without limitation. Zero coupon bonds, which are the direct and sole obligations of the United States of America and enforceable by the holder thereof against the United States, are also legal investments. [BL §235(1)&(2)].
- G. Bonds of the Savings and Loan Bank of the State of New York, Federal Land Bank, Federal Intermediate Credit Banks, and Banks for Cooperatives. [BL §235(10)&(11)].
- H. Bonds of the Freddie Mac, Federal Home Loan Banks, Tennessee Valley Authority, Fannie Mae, and the United States Postal Service. [BL §235(15)].
- I. Obligations issued or guaranteed by the International Bank for Reconstruction and Development, provided the aggregate unpaid principal amount of such obligations at any time held by the System shall not exceed five percent (5%) of the System's assets. [BL §235(24); RSSL §177(1)(b)].

**Domestic Fixed Income Securities**

- J. Obligations issued or guaranteed by the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, and obligations guaranteed by the Youth Facilities Project Guarantee Fund and participations therein. [BL §235 (24-a), (24-b), (24-c) & (24-d)].
- K. Bonds and notes of any bank, trust company, savings bank, or savings and loan association organized under the laws of New York State having a net worth of at least \$10 million, which are validly secured at all times to the extent of one-hundred ten percent (110%) of the unpaid principal amount of such bonds and notes by mortgages upon real estate insured by the federal housing administrator or any of his successors in office and guaranteed by the United States under the provisions of the National Housing Act, as amended or supplemented, and to the extent of one-hundred thirty-three and one-third percent (133 1/3%) of the unpaid principal amount of such bonds and notes by conventional mortgages, the valuation of which must be based upon the unpaid principal amount thereof upon the date of the pledge, assignment, or transfer thereof to the System or its trustee or trustees as security for such bonds and notes, such bonds and notes to be amortized in substantially equal annual or semiannual payments of principal and interest over a period not in excess of twenty-five (25) years, provided the aggregate unpaid principal amount of bonds and notes secured by conventional mortgages shall not exceed five percent (5%) of the assets of the System. [RSSL §177(4)].
- L. Mortgage pass-through certificates, provided the certificates evidence ownership of undivided interests in pools or mortgage loans secured by first mortgages on real property located in New York State improved by one-to-four family residential dwellings and, provided further, that (i) such mortgage loans are originated on or after January 1, 1980, by any bank, trust company, national banking association, savings bank, federal mutual savings bank, savings and loan association, federal savings and loan association, credit union, or federal credit union authorized to do business in New York State or by any lender approved by the Secretary of Housing and Urban Development for participation in any mortgage insurance program under the National Housing Act; (ii) such mortgage loans are assigned to a bank, trust company, federal mutual savings bank, or federal savings and loan association as trustee for the benefit of the holders of such certificates; and (iii) such certificates are rated within the three (3) highest grades by an independent rating service designated by the banking board. The aggregate unpaid principal on conventional mortgages securing mortgage pass-through certificates cannot exceed ten percent (10%) of the assets of the System nor can the total unpaid principal on any single pool of conventional mortgages securing mortgage pass-through certificates exceed one percent (1%) of the assets of the System. [RSSL §177-c].
- M. Collateralized Mortgage Obligations (CMOs) which meet the requirements of Subparagraph A hereof.
- N. Private placements, where the purchase of unrated obligations is authorized by the Banking Law or the Retirement and Social Security Law, governing fixed income obligations; if not so provided, private placements as well as other domestic fixed income securities not otherwise provided for may be purchased under the Leeway Clause, RSSL §177(9).
- O. Other investments meeting legal investment criteria.

VI. Risk Management**A. Market Risk:**



Domestic Fixed Income Securities

1. **Diversification:** The domestic fixed income portfolio contributes to the diversification of the overall portfolio. The asset allocation target is 18% with an allowable range of 13-23%. This range may be exceeded to reflect any shortfall in the allocation to the mortgage asset class, subject to statutory limitations. Within the domestic fixed income sector, diversification is achieved by:
 - a. Exposure to many sectors of the domestic fixed income market including: U.S. Treasuries and agency obligations, corporate bonds, and mortgage backed securities.
 - b. Selection of securities taking into consideration the sector, maturity, yield, quality, call protection, liquidity, and effect on the diversification of the portfolio.
 2. **Credit Rating Restrictions:** The System may only invest in securities rated investment grade or better by two (2) nationally recognized rating services (or by one (1) nationally recognized rating service in the event only one such service rates such obligations).
- B. **Funding Liquidity Risk:** Funding liquidity risk is controlled by monitoring the degree to which cash flows generated by the bond flow match the retired liability schedule. Matching considerations are incorporated into portfolio management to the extent possible without compromising performance relative to the benchmark.
- C. **Credit Risk:**
1. All domestic fixed income security transactions are settled on a delivery versus payment basis.
 2. Custody of the securities is strictly maintained by the custodial bank. Thus, external investment managers do not have physical possession of System securities.
- D. **Operational Risk:** The Communications and Responsibilities & Controls sections will delineate the measures implemented to control operational risks.

VII. Communications

- A. **Retirement Board Reporting:**
1. The Investment Information Department (IID) shall report to the Board all long-term investment purchases and sales on a monthly basis.
 2. The Investment Information Department will provide a quarterly report of credit quality, distribution, yield and duration for inclusion in the minutes of the Investment Committee of the Retirement Board.
 3. The Actuarial Department shall provide a summary of performance, quarterly.
 4. The Investment Information and Actuarial Departments will provide a long-term cash flow projection of retired lives liabilities and income as part of the annual asset allocation review.

**Domestic Fixed Income Securities****VIII. Responsibilities & Controls**

Responsible Party	Action
Actuarial/Investment Information Departments	1. Prepare long-term retired lives liability and income projection.
Investment Information Department	2. Prepare a 12 month cash flow forecast for the Internal Investment Committee on a monthly basis. This forecast brings together cash available to invest with planned program investments and targeted asset allocations while contemplating the benefit payment and operational cash needs of the System. By focusing on significant sources or uses of cash the Internal Investment Committee assures coordination of investment strategies, funding of annuitant benefits and adherence to asset allocation targets.
Fixed Income Department	<p>3. Review the cash flow forecast and coordinates it with asset allocation analysis to determine whether the program will incorporate net buying, selling, or status quo. This analysis is coordinated with Actuary and the Internal Investment Committee.</p> <p>4. Continuously assesses goals for portfolio characteristics taking into consideration the following: the benchmark; the duration of the retired lives; interest rate and spread duration; distribution of maturity, yield, quality, call protection; diversification among sectors; the yield curve; and compliance with law, policy, and System needs.</p> <p>5. Execute trades designed to accomplish strategic and asset allocation goals.</p> <p>6. Approve all transactions.</p> <p>7. Communicate transaction details to Investment Information Department, including description details for new securities.</p>
External Investment Managers	<p>8. Based on a stated style and full investment discretion, execute trades with brokers and report to the Investment Information Department or Custodian Bank as directed by NYSTRS.</p> <p>9. Reconcile portfolio activity and holdings with System and Custodian Bank.</p>
Real Estate Department	10. Act as liaison between external CMBS program managers and the System.

**Domestic Fixed Income Securities****VIII. Responsibilities & Controls (continued)**

Responsible Party	Action
Real Estate Department	<p>11. Continuously assesses goals for CMBS portfolios taking into consideration the following: the benchmark; duration, distribution of maturity, yield, quality, diversification among sectors; compliance with law, policy, program investment guidelines; and System needs.</p> <p>12. Review the cash flow forecast and coordinate it with asset allocation analysis to determine whether the program will incorporate net buying, selling, or status quo. This analysis is coordinated with the Internal Investment Committee.</p>
Investment Information Department	<p>13. Communicate trade information to custodian bank. Verify correct securities were received or delivered, resolve any discrepancies. Prepare warrant and sale letters.</p> <p>14. Perform all investment accounting and reporting, applying appropriate accounting controls.</p> <p>15. Determine that portfolio holdings comply with statutory limitations.</p>
Executive	16. Approve warrant to disburse funds.
Finance Department	17. Receive signed warrant from executive and forward to NYS Treasurer.
NYS Treasurer	18. Record payment.
Finance Dept.	19. Post warrant to General Ledger and retain executed copy.
Custodian Bank	20. Settle trades and pay or receive funds only after trades settle. Settle maturities and credit account at maturity.
Investment Information Department	<p>21. Reconcile System holdings to custodial position, monthly.</p> <p>22. Provide copy of this reconciliation to NYS Treasurer.</p>
Actuarial Department	23. Calculate and review performance, monthly.
Investment Information Department	24. Review reported information for accuracy (e.g. interest, fees, and ending balances).



**Fixed Income Addendum
Selection and Evaluation of
Fixed Income Broker-Dealer Counterparties**

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**Fixed Income Addendum
Selection and Evaluation of
Fixed Income Broker-Dealer Counterparties**

I. Purpose

This statement of Fixed Income broker-dealer selection and evaluation policy documents the principles and standards that guide the selection, evaluation, and monitoring of firms transacted with for the purchase or sale of securities by staff for the internally managed fixed income portfolios at the System. This policy is intended to be binding on all relevant persons who have responsibilities and authority with respect to management of these portfolios.

The purpose of this policy is to:

- A. State the objectives the Retirement Board judges to be appropriate and prudent for the selection of counterparties the System executes fixed income trades with;
- B. Establish procedures and criteria that may be considered reasonable and prudent for the System as well as the process for periodic evaluation and monitoring of counterparties the System executes fixed income trades with;
- C. Communicate these policies, objectives, and criteria to all interested parties including the Retirement Board, staff, counterparties, consultants, and custodians; and
- D. Operate as a review document.

II. Objectives

Principal objectives for establishing guidelines for the selection, evaluation, and monitoring of counterparty firms that the System executes trades with for the internally managed fixed income portfolios have been formulated with respect to the following considerations:

- A. To state criteria that can be used objectively for the selection of fixed income counterparties and
- B. To state procedures for the periodic evaluation of fixed income counterparties.

III. Procedures and Criteria

All counterparties approved to trade with the System's internally managed fixed income portfolios shall meet the requirements set forth below:

- A. Procedures for broker-dealer firm selection:
 - 1. Firms wishing to trade fixed income securities with the System, based upon System needs, must complete a questionnaire regarding their organizational structure, experience, resources, services, trading, compliance, and client servicing capabilities. The information will be maintained by staff and updated and reviewed periodically. This long form questionnaire will be reissued to and collected from all existing relationships at least every five (5) years. An abbreviated survey ascertaining compliance with criteria outlined in Item 2 of "Criteria for Approval" will be issued and collected each year that no request is made for the long form questionnaire to be completed;
 - 2. Staff will be responsible for maintaining an approved list of counterparties meeting the criteria stated herein;



**Fixed Income Addendum
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3. Firm selection will be pursuant to the criteria below that help the System meet the objectives of the internally managed fixed income portfolios, such as liquidity and asset allocation. Meeting all criteria below does not ensure a relationship will be established and or maintained nor will the failure to meet one or more of the "Other Factors for Consideration" criteria preclude a relationship from being established with the System;
 4. Minority/Women/Disabled-owned broker-dealers are encouraged to apply for consideration;
 5. Staff will have discretion to select among approved counterparties at the time of transaction taking into consideration one or more of the following:
 - a) Is the firm a lead underwriter in the security to be transacted in;
 - b) Is the firm making a market in the security to be transacted in;
 - c) Does the firm have presence and/or maintain an inventory of securities in the fixed income sub-asset class that will be traded (e.g. agency mortgage pass-throughs); or
 - d) Does the firm have financial capability to transact the security in the size required by the System.
 6. The approved list of counterparties which meet the criteria stated herein will be periodically reviewed and modified by staff. Firms not meeting standards of performance or conduct as described in the evaluation and review procedures of this policy herein may be suspended or eliminated from the approved list.
- B. Criteria for Approval
- Firms must meet the minimum qualifications:
1. Maintain good financial standing;
 2. Demonstrate appropriate regulatory controls and business practices that are consistent with SEC and other applicable laws. Gross negligence, proven criminal activities, or sanctions and fines issued by a regulatory agency to the firm will result in review and possible suspension of the counterparty relationship and may result in permanent exclusion from conducting business with the System;
 3. Maintain acceptable standards of record-keeping to include timely and accurate confirmation and settlement and/or payment of trades; and
 4. Possess transactional experience in the types of fixed income securities to be traded.
- C. Other Factors for Consideration:
1. Whether the firm is a Primary Dealer, a firm that trades in U.S. Government Securities with the Federal Reserve Bank of New York;
 2. Does the firm have a dealer relationship with a U.S. Government Agency(s) (e.g. a Discount Note Dealer Group or Auction Dealer Group);
 3. Is the firm a participant on an electronic trading platform that facilitates the transacting of fixed income securities through a competitive process; or



**Fixed Income Addendum
Selection and Evaluation of
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4. Does the firm fill a niche or meet a need of the System that is not currently being addressed by existing relationships.

IV. Evaluation and Review Procedures

The following steps shall be taken by staff:

- A. Periodic Reports: Staff will obtain and review periodic reports which supply critical information, such as the amount of transaction activity and commission amounts with respective counterparties.
- B. Trading Activity: Periodically and upon request, staff will review with the Retirement Board the aggregate trading activity of the fixed income portfolio(s) managed by staff.
- C. Meetings and Reports: Broker-dealers which transact significant volume with the System are expected to be available to meet with staff periodically to review fixed income transaction activity as it relates to the needs of the System.
- D. Review and Modification: Modifications to this policy shall be promptly communicated to broker-dealer counterparties, consultants, and other relevant parties.
- E. Significant Events: Firms shall advise staff immediately and staff shall review the impact on the relationship with NYSTRS, if any of the following events occur within their organization:
 1. Any event which will have a material impact on the management, professionalism, integrity, or financial position of the firm;
 2. A loss of one or more key people that have a direct impact on the relationship between the firm and the System;
 3. A new client service representative(s) on the System's account;
 4. A change in ownership or control (whether through acquisition, disposition, spin-off, merger, consolidation, or otherwise) of the brokerage firm; and
 5. All instances of enforcement proceedings by the SEC, Financial Industry Regulatory Authority (FINRA), or other regulatory bodies against the brokerage firm.

V. Responsibilities & Controls

Responsible Party	Action
Managing Director of Fixed Income or designee	<ol style="list-style-type: none"> 1. Proactively monitor the selection, evaluation, and monitoring of firms that trade fixed income securities with the System's internally managed portfolios in accordance with policy goals and objectives. 2. Maintain documentation supporting compliance with policy and periodic due diligence updates.



NEW YORK STATE TEACHERS' RETIREMENT SYSTEM
INVESTMENT POLICY MANUAL

Domestic Equity Securities

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**Domestic Equity Securities**

I. Introduction

1. Domestic equities, for System purposes, typically consist of corporate common stock. These stocks must be registered on a national securities exchange or must be otherwise registered as provided in the Securities Exchange Act of 1934 as amended, with price quotations furnished through a nationwide automated quotations system approved by the National Association of Securities Dealers, Inc. (NASD). The Retirement Board has authorized limited writing of covered call options with the internally managed portfolios. External investment managers are not authorized to trade in options. The use of exchange traded equity index futures have also been authorized to minimize asset allocation risk, minimize implementation costs and improve efficiencies when rebalancing the domestic equity portfolio.

II. Purpose

To maximize long-term total return within acceptable risk parameters.

III. Performance Objectives

- A. Passive/Enhanced Managed Funds: The System currently maintains six (6) internally managed portfolios - the NYSTRS S&P 1500 Index Fund, the NYSTRS S&P 1500 Value Tilt Fund, the NYSTRS S&P 1500 Growth Tilt Fund, the S&P 100 Index Fund, the S&P 600 Index Fund, and the NYSTRS S&P 500 Fund. The objective of the NYSTRS S&P 1500 Index Fund is to match, as closely as possible, the performance of the S&P 1500 Stock Index with a similar level of risk. The NYSTRS S&P 1500 Value Tilt Fund follows the S&P 1500 Stock Index, while enhancing the portfolio toward value related stocks. The S&P 1500 Growth Tilt Fund is enhanced towards growth related stocks. The NYSTRS S&P 500 Fund follows the S&P 500 index through internal and external enhancements. The S&P 100 Index Fund is to match, as closely as possible, the performance of the S&P 100 Stock Index with a similar level of risk. S&P 600 Index Fund is to match, as closely as possible, the performance of the S&P 600 Stock Index with a similar level of risk. All six funds are managed internally.
- B. Actively Managed Funds: The objective of the externally managed funds is to exceed their respective benchmarks and in consideration of the style for which they were hired, commensurate with risk taken.

IV. Management Structure

The Managing Director of Public Equities, with the assistance of investment consultants as the Managing Director deems necessary, shall oversee the internally managed Domestic Equity Portfolios and the external investment managers who have been retained to manage domestic equity portfolios.

The Executive Director/CIO or his designee is authorized by NYSTRS Board of Directors to reallocate up to \$150 million per quarter in assets from the System's actively managed domestic equity portfolios to the System's passively managed domestic equity portfolios and/or to cash flow, provided that amounts reallocated shall not exceed twenty-five percent (25%) of the assets under active management at the time of the reallocation.

- A. Up to one-hundred percent (100%) of the System's domestic equities can be internally managed in index and enhanced portfolios.
- B. External investment managers may be engaged to operate as a fund-of-funds, hiring other external investment managers. (See the requirements for external investment managers)

**Domestic Equity Securities**

retained by the System's domestic equity fund-of-fund managers, attached hereto as Appendix B)

C. Internal Portfolios:

1. The System currently uses the MSCI Barra and Northfield Optimization Models in constructing and maintaining its in-house portfolios. Essentially, this technique is used to achieve a minimal tracking error in matching performance of the portfolio with the appropriate benchmark, while maintaining transaction and other costs, and risk at an acceptable level. Due to transaction costs, the System generally does not attempt to maintain an exact replica of the indices. Rather, a sampling of each of the aforementioned portfolios is acquired and then optimized to track the respective indices using the models as stated above. The objective of the NYSTRS 1500 Value and Growth Tilt Funds is to enhance returns by including additional value and growth stocks.
2. Covered Call Options: Covered call options may be written on securities which are earmarked to be sold as part of rebalancing the portfolio or to enhance portfolio yield. Any such options must be traded on one of the national exchanges. (See section V.C. and Covered Call Option Guidelines attached hereto as Appendix A)
3. Futures: Exchange traded equity index futures may be bought/sold as part of the asset allocation rebalancing (See Futures-Based Rebalancing Guidelines attached hereto as Appendix C)

D. Custodial Relationship:

1. All domestic equities, whether under internal or external management, are maintained in the custody and safekeeping of the System's custodian bank. This is accomplished pursuant to a contractual agreement among (i) the NYS Treasurer, as statutory custodian, (ii) the actual bank custodian, and (iii) the System.
2. Pursuant to said Agreement, settlement instructions are communicated by the System to the custodian bank for execution.

V. Legally Permissible Investments

- A. Subject to a determination by the Internal Investment Committee, the Retirement Board or an external manager, as appropriate, that an investment is prudent, the System may invest in domestic equity securities and interest-bearing obligations payable in U.S. funds which are convertible into equity securities of any corporation created or existing under the laws of the U.S., any state of the U.S., District of Columbia, and Commonwealth of Puerto Rico, or any investment company, as defined by, and which is registered under, an act of Congress of the United States, entitled the "Investment Company Act of 1940", approved August twenty-second, nineteen hundred forty (August 22, 1940), as amended. [Retirement and Social Security Law (RSSL) §177(2)]
- B. Each of the foregoing investment vehicles is subject to the following limitations:
 1. The equity securities must be registered on a national securities exchange or otherwise registered pursuant to the Securities Exchange Act of 1934 and, if so otherwise registered, price quotations for such equity securities are furnished through a nationwide automated quotations system approved by the National Association of Securities Dealers, Inc. [RSSL §177(2)(d)].

**Domestic Equity Securities**

2. The maximum invested by the System in such equity securities shall not exceed: (a) in any one (1) year fifteen percent (15%) of the assets of the System; or (b) seventy percent (70%) in the aggregate (domestic equities must share the fifteen percent (15%) and seventy percent (70%) limitations with foreign equities acquired pursuant to RSSL §177(8)); (c) provided, further, however, that more than fifteen percent (15%) of such domestic equities, but not more than twenty percent (20%) thereof, may be so invested in any one (1) year but only to the extent that the per centum of such investments over all prior years from July 1991, when added to the per centum of such investments during that year, does not exceed an average of fifteen percent (15%) of the assets of the System over all prior years and the year in which the investment is being made [RSSL §177(2)(a)].
 3. Not more than two percent (2%) of the assets of the System shall be invested in the equity securities of any one corporation and subsidiary or subsidiaries thereof [RSSL §177(2)(b)].
 4. Not more than five percent (5%) of the total issued and outstanding equity securities of any one corporation shall be owned by the System. [RSSL §177(2)(c)].
 5. Pursuant to RSSL §178-a, the statutory custodian (NYS Treasurer) has authorized domestic equities to be maintained in the custody of the System's custodian.
 6. Notwithstanding the foregoing percentage limitations, the leeway clause [RSSL §177(9)] may be utilized to legally exceed the foregoing percentages, so long as such assets are prudent investments, and fall within the percentage limitation currently applicable to the leeway clause.
- C. In addition, the System is authorized to write covered call options traded on a national exchange pursuant to the Covered Call Option Guidelines (see section IV.D.2, and Appendix A). The Banking Department has issued a determination that a prudently maintained covered call option program is permissible under Banking Law (BL) §235 as long as the options are traded on a national exchange.
- D. In addition, the System is authorized to buy/sell exchange traded equity index futures pursuant to the Futures Guidelines (see Appendix C). Assets covering the notional value should be identified before the futures position is established and would be considered investments pursuant to the leeway clause [RSSL §177(9)].

VI. Risk Management**A. Market Risk:**

Diversification: The domestic equity portfolios contribute to the diversification of the overall portfolio. The asset allocation target is thirty-seven percent (37%) with an allowable range of 32-42%¹. This range may be exceeded to reflect any shortfall in the allocation to real estate or alternative investments as long as statutory constraints are not exceeded. Within the domestic equity sector, diversification is achieved by:

- a. Use of the in-house portfolios, to help to ensure broad diversity among a large universe of stocks and industries.

¹ Prior to action taken by the Board at its July 2011 meeting, the asset allocation target for Domestic Equity was 42% with an allowable range of 35%-49%.

**Domestic Equity Securities**

2. Careful selection of external investment managers with varying investment styles. Two primary styles are growth and value. A growth style focuses on companies expected to grow faster than the market in general, while a value style seeks stocks whose prices are low relative to their inherent value. External investment managers are not permitted to deviate from the style for which they were hired. An investment consultant shall be retained to monitor the managers, other than fund-of-funds managers, adherence to stated style. Significant deviation may result in termination of the management contract. Fund-of-fund managers report on the investment activity of the managers within the fund. (See the Selection, Monitoring and Termination of External Investment Managers for Publicly Traded Securities policy.)
- B. Credit Risk:
1. All domestic equity security transactions are settled on a delivery versus payment basis.
 2. Custody of the equity securities is strictly maintained by the custodian bank. Thus, external investment managers do not have physical possession of System equities.
- C. Operational Risk: The Communications and Responsibilities & Controls sections will delineate the measures implemented to control operational risks.

VII. Communications

- A. Retirement Board Reporting:
1. The Investment Information Department reports all internally generated equity purchases and sales on a monthly basis. External investment manager trades are reported in summary form.
 2. The Investment Information Department provides a report of the principal holdings and changes within the past quarter for inclusion in the minutes of the Investment Committee of the Retirement Board.
 3. The Investment Information Department provides a report, as warranted by program use, of covered call option activity for inclusion in the minutes of the Investment Committee of the Retirement Board.
 4. The Actuarial Department or performance monitoring Consultant provides a summary of performance, quarterly.
 5. The performance monitoring consultant presents a detailed performance attribution analysis for the actively managed external funds, other than fund-of-funds, quarterly.
- B. External Investment Manager Reporting:
1. External investment managers provide monthly reports of their holdings and market values which the System reconciles to its records.
 2. External investment managers report to the Investment Advisory Committee, Retirement Board, Internal Investment Committee, and/or Managing Director of Public Equities or designee upon request.

**Domestic Equity Securities****VIII. Responsibilities & Controls**

Responsible Party	Action
Investment Information Department	1. Prepare a 12 month cash flow forecast for the Internal Investment Committee on a monthly basis. This forecast brings together cash available to invest with planned program investments and targeted asset allocations while contemplating the benefit payment and operational cash needs of the System. By focusing on significant sources or uses of cash the Internal Investment Committee assures coordination of investment strategies, funding of annuitant benefits and adherence to asset allocation targets.
Managing Director of Public Equities or designee	2. Review the cash flow forecast and coordinate it with asset allocation analysis to determine whether the rebalancing program will incorporate a buy, sell, or status quo program. This analysis is coordinated with Internal Investment Committee and the Executive Director/CIO. 3. Develop the optimal rebalancing program. The result of this process is a recommended buy and sell list. 4. Determine investments comply with law and policy. 5. Place buy, sell, and option orders with brokers. 6. Communicate trade details and forward inter-fund trades to the Investment Information Department. 7. Oversees qualitative aspects of the program such as strategy and process.
External Investment Managers	8. Based on a stated style and full investment discretion, execute trades with brokers, and report trades to the Investment Information Department.
Managing Director of Public Equities, or designee	9. Act as liaison between external equity managers and the System.
Investment Information Department	10. Communicate trade information to Depository Trust Company (DTC) or custodian bank. Prepare warrants. Assure settlement and funding of trades. 11. Perform all investment related accounting and reporting, applying appropriate accounting controls.



VIII. Responsibilities & Controls (continued)

Responsible Party	Action
Executive	12. Approve warrants to disburse funds.
Finance Department	13. Receive signed warrant from executive and forward to NYS Treasurer.
NYS Treasurer	14. Record payment.
Finance Department	15. Post warrant to General Ledger and retain executed copy.
Investment Information Department	16. Verify trades have been settled correctly and resolve any discrepancies. 17. Reconcile System holdings to custodial position monthly. Reconcile shares and market values per external managers' reports to System's records, monthly. 18. Provide copy of this reconciliation to NYS Treasurer. 19. Determine that portfolio holdings comply with statutory limitations. 20. Maintain reports, reconciliations, and related correspondence.
Custodian Bank	21. Settle trades and pay or receive funds in accordance with the customary or established securities trading or securities processing practices and procedures in the jurisdiction or market in which the trade occurs.
Actuarial Department or independent performance monitoring consultant	22. Calculate and review performance, monthly. 23. Coordinate reports from security investment performance consultant.
Legal Department	24. Review contracts with external managers and advisors. 25. Provide legal advice regarding compliance with legal investment criteria and other legal issues.



APPENDIX A

Covered Call Option Guidelines

1. Covered call options (options) may be written on issues to manage the internally managed portfolios.
2. Options may be written when the annualized rate of return (excluding dividends) is greater than one percent (1%) above the current 90-day Treasury Bill rate. The annualized rate of return for this purpose is defined as follows:

% Annualized Rate of Return =

$$\frac{\text{Minimum of Stock Price or Strike Price}}{\text{(Market Price of Stock at Time of Writing - Premium Received from Option)}}^{-1} \times \frac{360}{\text{No. of Days Remaining}}$$

3. An open option may be closed out (i.e., repurchased) when the premium for such call has dropped to a level making the repurchase appropriate.
4. The underlying market value of stocks covered by outstanding options shall not exceed \$1 billion at any one time.
5. Options on an individual issue shall not exceed the maximum position limit prescribed by the Options Clearing Corporation.



APPENDIX B

**Requirements for External Investment Managers Retained
By Domestic Equity Fund-of-Funds Managers**

1. Key professionals are majority owners of the firm.
2. Key professionals have relevant experience (analysts, portfolio managers).
3. Key professionals have at least five (5) years industry experience and have worked together for at least three (3) years.
4. Low client/professional ratio.
5. Limited number of individual clients based on discretionary assets under management.
6. Each firm should have more than \$10 million and less than \$2 billion of assets under management.
7. The System's allocation will not represent more than fifty percent (50%) of each firm's total assets under management.



APPENDIX C

Futures-Based Rebalancing Guidelines

1. Exchange traded equity index futures may be used to minimize asset allocation risk, minimize implementation costs and improve efficiencies when rebalancing the domestic equity portfolio.
2. The Executive Director/CIO, or designee, is authorized to buy/sell up to \$2 billion in notional exposure at the time the futures position is established.
3. Assets covering the notional value should be identified before the futures position is established.
4. Futures positions are generally closed out (purchased/sold) as the identified assets are purchased /sold.



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International Equity Securities

I. Introduction

The System's international equity portfolio consists of passively and actively managed portfolios. International equity portfolios may be structured as separate or commingled accounts or a combination of the two and may be managed internally or externally.

II. Purpose

To maximize long-term total return within acceptable risk parameters while diversifying the overall portfolio.

III. Performance Objective

The System's externally managed international equity portfolios are measured against the unhedged MSCI (Morgan Stanley Capital International) EAFE (Europe, Australasia, and the Far East) Stock Index and the MSCI ACWI (All Country World Index) Ex-U.S. Passively managed portfolios are measured against the MSCI EAFE. New actively managed portfolios will be measured against the MSCI ACWI Ex-U.S, EAFE or another benchmark as appropriate. At its July 2011 meeting, the Board adopted the ACWI ex-US index as the benchmark for the international equity portfolios, replacing the EAFE index. All funds currently passively managed to the EAFE index will be transitioned to the ACWI ex-US in an orderly fashion. Passive portfolios are expected to achieve minimal tracking error against the benchmark and active portfolios are expected to exceed the return of the benchmark.

IV. Management Structure

The Managing Director of Public Equities, with the assistance of investment consultants as the Managing Director deems necessary, shall oversee the external investment managers.

The Executive Director/CIO or his designee is authorized to take any necessary or advisable actions to implement reallocation of assets in various international equity portfolios to assure orderly implementation of Board approved mandates.

Pursuant to the Retirement Board's direction (based upon the investment consultant's recommendation), the target allocations for international equities are: Passive 75%, Active 25%.

1. Passive: managers passively manage country, currency, and security selection.
2. Active: managers actively manage country, currency, and security selection.
3. The System's externally managed international equity portfolios may be managed in separate or commingled vehicles.
4. The System may engage in securities lending, or invest in commingled funds that lend securities on a prudent basis.
5. Commingled vehicles are maintained in the custody and safekeeping of the commingled funds' custodian banks, which may appoint one or more foreign entities as their agent to hold and register foreign securities.
6. Separate accounts are maintained in the custody and safekeeping of NYSTRS' custodian.

**V. Legally Permissible Investments**

Subject to determination by the Internal Investment Committee, the Retirement Board or an external investment manager, as appropriate, that a particular investment is prudent, investment in international equity securities is permitted under Retirement and Social Security Law (RSSL) §177(8).

- A. Pursuant to RSSL §177(8), no more than ten percent (10%) of the System's assets may be invested in international equity securities, including emerging market equity securities. Investments in international equities must be included with the System's domestic equities for the purpose of the seventy percent (70%) overall limitation and the fifteen percent (15%) per year limitation contained in RSSL §177(2). In addition, under RSSL §177(8), an international equity may only be acquired if:
 - 1. The security is registered:
 - a. on a national exchange under the Securities and Exchange Act of 1934 or otherwise registered pursuant to said act, and, if the security is so otherwise registered, price quotations must be furnished through a NASD approved nationwide quotation system; or
 - b. on a foreign exchange organized and regulated under the jurisdiction of such exchange, and
 - 2. The issuing corporation shall have (a) averaged at least \$1 billion in annual sales during the three years immediately preceding the investment, or (b) a market capitalization of at least \$1 billion at the time of investment.
- B. Otherwise, the security may be acquired under the Leeway Clause (RSSL §177(9)) if prudent.

VI. Risk Management

- A. Market Risk:
 - 1. Diversification: The international equity portfolios contribute to the diversification of the overall portfolio. The asset allocation target is 18% with an allowable range of 14-22%. Within the international equity sector, diversification is achieved by:
 - a. Investing in broad market indices such as the MSCI EAFE and the MSCI ACWI Ex-US helps diversify among a large universe of countries, currencies, stocks and industries.
 - b. The System may invest in funds that manage currencies and country index futures as an integral part of the investment process.
 - 2. Careful selection of external investment managers: An investment consultant shall be retained to provide advice regarding the impact of various changes at the external international equity manager's firm. (See Selection, Monitoring and Termination of External Investment Managers for Publicly Traded Securities.)



International Equity Securities

- B. Political Risk: The System is exposed to the risk of nationalization or other unfavorable government action in the foreign countries in which it invests. This risk is mitigated to the extent possible by maintaining a well-diversified country exposure.
- C. Operational Risk: The Communications and Responsibilities & Controls sections will delineate the measures implemented to control operational risks.

VII. Communications

- A. Retirement Board Reporting:
 - 1. The Actuarial Department will provide a summary of performance quarterly.
 - 2. The investment team shall take such steps as are necessary to monitor investment performance.
- B. External Investment Manager Reporting:
 - 1. External investment managers shall provide monthly reports about the System's holdings/participation units, market values, and income.
 - 2. External investment managers will report to the Investment Advisory Committee and/or the Retirement Board upon request.



International Equity Securities

VIII. Responsibilities & Controls

Responsible Party	Action
<p><u>PROGRAM FUNDING:</u> Investment Information Department</p>	<p>1. Prepare a 12 month cash flow forecast for the Internal Investment Committee on a monthly basis. This forecast brings together cash available to invest with planned program investments and targeted asset allocations while contemplating the benefit payment and operational cash needs of the System. By focusing on significant sources or uses of cash the Internal Investment Committee assures coordination of investment strategies, funding of annuitant benefits and adherence to asset allocation targets.</p>
<p>Managing Director of Public Equities or designee</p>	<p>2. Review the cash flow forecast and coordinate it with asset allocation analysis to determine whether the rebalancing program will incorporate further funding, status quo, or a sell program. This analysis is coordinated with the Executive Director/CIO. 3. Instruct the Investment Information Department to disburse funds to the investment manager.</p>
<p>Investment Information Department</p>	<p>4. Prepare warrant and submit to Internal Audit.</p>
<p>Internal Audit</p>	<p>5. Pre-audit warrant and submit to Executive.</p>
<p>Executive</p>	<p>6. Approve warrants for funding.</p>
<p>Finance Department</p>	<p>7. Receive signed warrant from Executive and forward to NYS Treasurer.</p>
<p>NYS Treasurer</p>	<p>8. Record payment.</p>
<p>Finance Department</p>	<p>9. Post warrant to General Ledger and retain executed copy.</p>
<p><u>INVESTMENT PROCESS:</u> <i>(External Management)</i> External Investment Managers</p>	<p>10. As fiduciaries for the System, and in compliance with System policies and governing agreements, manage the international equity portfolios on a day-to-day basis according to the terms of the investment management agreement. This includes, but is not limited to, selecting country and securities, executing trades with brokers, and trading currencies.</p>



International Equity Securities

Responsible Party	Action
<p>Managing Director of Public Equities or designee</p>	<p>11. Act as a liaison between international equity managers and the System.</p>
<p><u>INVESTMENT PROCESS:</u> <i>(Internal Management¹)</i></p> <p>Managing Director of Public Equities or designee</p>	<p>12. Develop the optimal rebalancing program. The result of this process is a recommended buy and sell list.</p> <p>13. Review overall trade recommendations with Internal Investment Committee and Executive Director/CIO, obtain approval.</p> <p>14. Place buy and sell orders with brokers.</p> <p>15. Communicate trade details to the Investment Information Department.</p> <p>16. Oversee qualitative aspects of the program such as strategy and process.</p>
<p>Investment Information Department</p>	<p>17. Communicate internally managed trade information to DTC or custodian bank. Prepare warrants.</p> <p>18. Verify internally managed trades have been settled correctly and resolve any discrepancies.</p>
<p>Custodian Bank</p>	<p>19. Settle trades and pay or receive funds in accordance with the customary or established securities trading or securities processing practices and procedures in the jurisdiction or market in which the trade occurs.</p>
<p><u>MONITORING:</u></p> <p>Managing Director of Public Equities or designee</p>	<p>20. Oversee qualitative aspects of the program such as strategy and process. (See Selection, Monitoring and Termination of External Investment Managers for Publicly Traded Securities)</p> <p>21. Maintain reports and correspondence files.</p>

¹ As of July 2011, all international equity funds are externally managed. “Responsibilities and Controls” have been included for internally managed funds in the event such a program is implemented.



VIII. Responsibilities & Controls (continued)

Responsible Party	Action
Investment Information Department <i>(External Management)</i>	<p>22. Receive monthly reports from each external manager and prepare journal entries to account for current period activity.</p> <p>23. Receive commingled fund audited financial statements annually and ensure audited statements reconcile to external manager financial reports used to record the System's portion of investment holdings.</p> <p>24. Determine that portfolio holdings comply with statutory limitations.</p> <p>25. Maintain reports, reconciliations and related correspondence.</p>
Investment Information Department <i>(Internal Management')</i>	<p>26. Reconcile System holdings to custodial position monthly.</p> <p>27. Provide copy of this reconciliation to NYS Treasurer.</p> <p>28. Determine that portfolio holdings comply with statutory limitations.</p> <p>29. Perform all investment related accounting and reporting, applying appropriate accounting controls.</p> <p>30. In conjunction with custodian bank, ensure all required documentation is completed and filed to reduce or eliminate the amount of foreign taxes withheld and to enable us to reclaim the maximum allowable when taxes are withheld.</p> <p>31. Record foreign taxes withheld on ADR dividends and track tax reclaims receivable.</p> <p>32. Perform monthly reconciliation of tax reclaims receivable with custodian bank.</p> <p>33. Maintain reports, reconciliations and related correspondence.</p>
Actuarial Department	<p>34. Calculate and review performance monthly.</p> <p>35. Coordinate reports from performance monitoring consultant.</p>
Legal Department	<p>36. Review contracts with external managers and advisors.</p> <p>37. Render advice on various legal questions, as needed.</p>



NEW YORK STATE TEACHERS' RETIREMENT SYSTEM
INVESTMENT POLICY MANUAL

Commercial Mortgage Lending

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I. Introduction

Mortgage investments are debt instruments (notes or bonds) secured by a mortgage or deed of trust which provides a lien on real estate. These investments include conventional (non-insured) mortgages, construction loans, Commercial Mortgage Backed Securities (CMBS), and junior loans. Junior loans would include second mortgages and Mezzanine Loans. Real Estate Mezzanine Loans are not secured by a lien on the real estate and therefore not technically a mortgage. The security for a Mezzanine Loan is the pledge of the ownership interest in the real estate asset. Mortgage Servicing encompasses all activities relating to the performance monitoring of commercial mortgage investments.

The policy of the System is to make mortgage loans secured by a first lien on real estate improved by income-producing property or Mezzanine Loans secured by an owner's interest in real estate. These investments are either originated directly by the System or by another lender acceptable to NYSTRS. Underwriting responsibility remains with the System or under a contractual arrangement whereby another party underwrites a transaction, co-invests in it alongside the System, and accepts fiduciary responsibility for its activities on behalf of the System. Construction loans are made much in the same fashion; however, they are used largely as a competitive advantage to allow the System to secure a desirable mortgage. The CMBS and the bulk of the Mezzanine investments are made through outside fiduciaries and involve diversified portfolios within commingled funds. The System's ability to directly originate junior mortgage loans and Mezzanine Loans will be limited to positions where the System holds all the senior loan interests. Such junior financing shall be conditioned upon: (i) there being sufficient cash flow to provide acceptable debt service coverage for the total financing; (ii) the loan-to-value ratio for the total financing being no greater than seventy-five percent (75%) of the appraised value of the security; (iii) the junior financing having a maturity date which is co-terminus with, or earlier than, the maturity date of the senior financing; and (iv) the junior financing being due and payable upon the sale of the property securing the financing or the prepayment of the senior financing.

II. Purpose

The purpose of the Commercial Mortgage Lending portfolio is to:

- A. Make investments which will support the retired liability of the System, consistent with current economic and market conditions;
- B. Provide diversification to the System's overall investment program within the parameters of the fund's asset allocation level;
- C. Provide a stable and predictable income stream; and
- D. Obtain maximum investment return while maintaining preservation of capital.

III. Performance Objective

Mortgage interest rates are priced by adding a market derived spread to the U.S. Treasury rate for a maturity similar to the proposed mortgage. This mortgage interest rate is then compared to portfolio-wide return requirements as established by the System from time to time for suitability. The CMBS component of the mortgage portfolio will be limited to investment grade securities and performance will be compared with a Barclays Capital U.S. Investment-Grade CMBS Index.



IV. Management Structure

The commercial mortgage portfolio is managed internally within the Real Estate Department and is overseen by the Managing Director of Real Estate or designee. Under the direction of the Executive Director/CIO and the Internal Investment Committee, the Managing Director of Real Estate is responsible for the formulation and implementation of the mortgage investment program.

Investment authorization is required by the Investment Committee of the Retirement Board or the Retirement Board; however the Board has authorized the Executive Director/CIO to invest the assets of the System in commercial mortgage loans and equity real estate investments, provided in each case:

- (1) the investment has been recommended to the Executive Director/CIO by the Real Estate Advisory Committee; and
- (2) the investment in any single commercial mortgage or equity real estate transaction shall not exceed \$75 million.

The Mortgage Servicing program is also managed internally within the Real Estate Department and is responsible for timely and accurate reporting of the results of commercial mortgage investment operations. Mortgage Servicing also includes responding, on a timely basis, to the needs of and any issues the Borrower may have in relation to the loan. Other institutions that serve as lead lenders and third-party correspondent servicers must also have policies in place to perform their servicing obligations under their respective Co-Investment, Intercreditor, and Servicing Agreements.

V. Legally Permissible Investments

Subject to determination of the Managing Director of Real Estate, or designee, that a mortgage investment is prudent, the System may invest in conventional mortgages constituting a first lien upon real property located in the U.S. pursuant to Retirement and Social Security Law (RSSL) §§176(2), 177, 177-a, and 178, and Banking Law (BL) §235. Some of the major provisions are:

- A. The loan amount must be no more than seventy-five percent (75%) of the appraised value of property improved by a building or buildings, the major portion of which is used or, in the case of a building under construction, to be used for residential, business, manufacturing, or agricultural purposes [RSSL §177(1)(a)(i)].
- B. The aggregate unpaid principal amount for all conventional mortgages shall not exceed thirty percent (30%) of the System's assets [RSSL §177(1)(a)(i)].
- C. Not more than five percent (5%) of the System's assets can be invested in any one (1) conventional mortgage [RSSL §177(1)(a)(i)].
- D. The minimum dollar amount for conventional mortgages is \$250,000 [RSSL §178].
- E. The System may invest in conventional mortgages guaranteed by a state bank or trust company having a net worth in excess of \$500 million, provided however, that no more than ten percent (10%) of the System's assets shall be invested in any mortgage so guaranteed [RSSL §177(3)].
- F. The System may participate or co-invest in any conventional mortgage or insured mortgage or in any whole or part interest in any such mortgage which mortgage is held for the benefit of the holder or holders of a whole interest or part interests therein, subject to the limitations set forth in (A) (B) (C) and (D) above [RSSL §177(5)].

**Commercial Mortgage Lending**

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- G. The System may make or acquire a mortgage loan on a leasehold estate, provided that such leasehold estate has an unexpired term of not less than twenty-one (21) years. Additionally, no mortgage loan upon a leasehold estate may be made or acquired unless the terms thereof shall provide for payments to be made by the borrower on the principal thereof at least once in each year in an amount which would be sufficient to completely amortize a loan whose period extended for four-fifths of the unexpired term of the lease. For these purposes, the unexpired term shall include any period covered under an option to renew the ground lease which can be exercised at the unilateral discretion of the System. The limitations set forth in (A) above apply to System investments in leasehold mortgages [BL §235(6)(i)].
 - H. The System may invest in any mortgage insured by the federal housing commissioner, or for which a commitment to insure has been made by the federal housing commissioner [BL §235(20)(a)].
 - I. Obligations payable in U.S. funds which at the time of investment are rated investment grade by two (2) nationally recognized rating services or by one (1) nationally recognized rating service in the event that only one such service rates such obligations, provided that the aggregate amount invested in the obligations of any single issuer may not exceed two percent (2%) of the assets of the System or five percent (5%) of the direct liabilities of the issuer unless the obligations are issued by the U.S. or are those for which the faith of the U.S. is pledged to provide payment of the interest and principal. [(RSSL) §177(1-a)].
 - J. The mortgage investment may be acquired under the Leeway Clause [RSSL §177(9)] if prudent.

VI. Risk Management

- A. The Retirement Board has adopted a target allocation of 8% for investment of System assets in commercial mortgages, with an allowable range of 5-11%.
- B. Risk management is accomplished through the investment underwriting process and by portfolio diversification. In the underwriting process, System staff and a team of “due diligence” professionals (including lawyers, appraisers, engineers, and environmental specialists) coordinated by the System, evaluate the factors likely to influence the performance of the asset pledged as collateral. The parameters of the financing are then styled to deal with any items of material concern. Risk to investment performance caused by broader economic phenomena which may influence a regional economy or an industry sector is mitigated by diversifying the mortgage portfolio both geographically and by property type. After an investment is made, long term investment performance is enhanced by an active mortgage servicing program which includes regular review of project financial statements and property inspections, which provide an early warning system that enables the System to deal with controllable issues proactively.
- C. Risk is also managed through the investment approval process which requires Internal Investment Committee and Real Estate Advisory Committee recommendations and Retirement Board approval for mortgage lending programs and each conventional mortgage originated by the System. Risk is further managed by statute which, among other things, places limits on maximum loan-to-value ratios and loan amount and by other policies and procedures established for the operation of the Real Estate Department and the System.
- D. The selection of appraisers will follow the guidelines established in the Equity Real Estate Investments section.
- E. In the event of sub-standard performance of a mortgage loan, Mortgage Servicing would include an evaluation of the loan in question and formulation and implementation of an appropriate plan to protect the interests of the System.



Commercial Mortgage Lending

- F. The following two sections titled, "Communications" and "Responsibilities & Controls", will delineate the measures implemented to control operational risks.



Commercial Mortgage Lending

VII. Communications

Retirement Board Reporting:

- A. The following mortgage investment activity is reported quarterly to the Investment Committee of the Retirement Board by the Real Estate Department: mortgage commitments signed; mortgages acquired; mortgages assigned, discharged, or satisfied; and mortgages in default.
- B. Financial parameters of the mortgage portfolio, including size and performance are reported quarterly to the Retirement Board by the Real Estate Department.
- C. Each quarter, the Actuarial Department provides a summary of performance.

VIII. Responsibilities & Controls

Responsible Party	Action
Retirement Board or Investment Committee of the Retirement Board/ Executive Director/CIO	1. Approve mortgage investment programs and conventional mortgage investments originated by the System (in case of Executive Director/CIO, approval authority for mortgage loans is capped at \$75 million per loan).
Investment Information Department	2. Prepare a 12 month cash flow forecast for the Internal Investment Committee on a monthly basis. This forecast brings together cash available to invest with planned program investments and targeted asset allocations while contemplating the benefit payment and operational cash needs of the System. By focusing on significant sources or uses of cash the Internal Investment Committee assures coordination of investment strategies, funding of annuitant benefits and adherence to asset allocation targets.
Real Estate Department	3. Identify and develop sources of potential mortgage investments. 4. Underwrite, negotiate, and close mortgage investments pursuant to statutory and other legal requirements. 5. Secure Real Estate Advisory Committee recommendations and Board or Executive Director/CIO approval as necessary to authorize investment. 6. Report investment activity to Board as required. 7. Service mortgage investments to maximize System return. 8. Instruct the Investment Information Department to disburse funds to the borrower. 9. Prepare warrant and submit to Finance for control log and to Internal Audit for pre-audit.

**VIII. Responsibilities & Controls (continued)**

Responsible Party	Action
Finance	10. Log warrant.
Internal Audit	11. Pre-audit warrant and submit to Executive.
Executive	12. Approve warrants for disbursement of funds.
Investment Information Department	13. Send wire to disburse funds per warrant instructions.
Finance Department	14. Receive signed warrant from Executive and forward to NYS Treasurer.
NYS Treasurer	15. Record warrants.
Finance Department	16. Post warrants to General Ledger and retain executed copy.
Investment Information Department	17. Each business day receive and post mortgage financial activity and adjustments to mortgage receivable files. 18. Communicate funding authorization to System's bank for new fundings. 19. Perform all investment related accounting and reporting.
Actuarial Department	20. Calculate and review performance, quarterly.



NEW YORK STATE TEACHERS' RETIREMENT SYSTEM
INVESTMENT POLICY MANUAL

Real Estate Investment

THIS SECTION CONTAINS THREE POLICIES:

- Equity Real Estate Investments
- Real Estate Department General Authorization
- Timberland Investments



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I. STATEMENT OF PURPOSE

The purpose of the New York State Teachers' Retirement System's (NYSTRS or the System) Equity Real Estate Policy Manual (Policy) is to provide general guidelines and specific requirements which will allow the Investment Committee of the Retirement Board, the Real Estate Advisory Committee (REAC), and NYSTRS' staff and external real estate professionals to fulfill the goals and objectives set forth herein for NYSTRS' real estate investment program.

The Policy is designed to enable NYSTRS' equity real estate portfolio to maintain the highest possible risk-adjusted returns. Recognizing that real estate and capital markets change over time, this document will be periodically reviewed and updated, as necessary, to reflect these changes.

II. DEFINITIONS

The following definitions for frequently used terms in this Policy are provided in order to clarify their usage in the formulation and implementation of the real estate investment program for NYSTRS. Definitions for terms used less frequently and specific to one section of the Policy are provided at the beginning of that section.

The term *Manager* (i.e., Discretionary Manager) shall be deemed to mean any company or entity which, by contractual agreement, assumes discretion over a specified amount of NYSTRS' real estate capital, invests the capital in numerous properties via the commingled fund investment structure, provides asset management services, and periodically reports to NYSTRS. By virtue of the contractual agreement, NYSTRS shall not retain ultimate investment authority as to the buying, holding, or selling of the individual property investments of the commingled fund.

The term *Advisor* shall be deemed to mean any company or individual which, by contractual agreement, provides property investment opportunities to NYSTRS, provides property asset management services to NYSTRS, or provides a combination of the foregoing to NYSTRS on a non-discretionary basis. Unless otherwise stipulated, NYSTRS will retain the authority to approve the acquisition or disposition of the property investments generated and/or managed by such company or individuals.

The term *Asset Manager* shall be deemed to mean any company or individual which may be retained by NYSTRS to recommend, implement, and supervise NYSTRS asset management policies and procedures for either all or a specified number of NYSTRS individual real estate property investments. Discretionary Managers and Advisors may be Asset Managers.

The term *Consultant* shall be deemed to mean any company or individual which provides any of the following services to NYSTRS: (1) definition, modification, and monitoring of real estate investment policy and program; (2) individual property review; (3) recommendations that relate to establishment or termination of relationships with Discretionary Managers, Advisors, Asset Managers, and/or other business partners; and (4) monitoring of and reporting on real estate investment performance and portfolio composition characteristics.



III. REAL ESTATE GOALS AND OBJECTIVES

The underlying goal of the real estate program is to invest in real property in a prudent manner. This program is designed to create a real estate portfolio of high quality property assets which will enhance long-term investment performance, diversify the asset base, and reduce the volatility of returns for the entire NYSTRS investment portfolio. Ultimate objectives are to preserve capital and increase cash returns and portfolio value.

Meeting these objectives requires a flexible investment strategy so that, as real estate and capital market conditions change, NYSTRS may take advantage of emerging opportunities. The System investment approach is one of active participation in the investment decision process and NYSTRS will retain certain levels of control over major investment and management decisions. This approach provides for the involvement of System staff while accessing third-party professional real estate expertise.

A. DIVERSIFICATION

An objective of the real estate investment program is to prudently diversify NYSTRS' real estate portfolio by investment structure, investment method, property type, property life cycle stage, and economic region in order to avoid undue concentration in any category. In addition, consideration will be given to minimizing the potential impact of cyclical changes in the economy, financial, and/or real estate markets.

Staff and the Consultant will prepare and periodically update a Strategic Plan for Real Estate, outlining the proposed diversification targets for NYSTRS' real estate portfolio. This strategic plan should be used as a guide when considering new investment opportunities and their impact on the aggregate real estate portfolio.

B. LEGALLY PERMISSIBLE INVESTMENTS¹

The value of all real property held by the System shall not exceed ten percent (10%) of its assets and the cost of each parcel of real property shall not exceed two percent (2%) of the System's assets. [Retirement and Social Security Law (RSSL) §177(6)(e)]

For these purposes of this subdivision six, an investment in an entity that invests or proposes to invest, directly or indirectly through one or more other entities, at least a majority of its assets in (1) any interest in real property of any kind or character as an investment for the production of income (including capital appreciation), or (2) debt instruments secured by any interest in real estate may be considered an investment in real estate.

Some of the investments addressed in this sub-policy may fall under other legal limitations, such as Domestic Equities for some REITs and the basket clause for investments which do not qualify under or are not otherwise permitted by RSSL §177(6)(e).

¹ Includes Chapter 554 of the Laws of 2011 affecting the provisions of RSSL §177(6) relating to real estate investments.



Equity Real Estate Investments

C. RISK MANAGEMENT

Since there are inherent risks with every real estate investment and the potential for maximum rewards is typically related to the amount of potential risk, the NYSTRS real estate investment program will emphasize the evaluation of risk and return. This approach allows the creation of maximum risk-adjusted yields.

Risk is managed by the creation of managerial, advisory, asset management, and consulting relationships which will provide an information flow to NYSTRS that enables staff to effectively analyze market conditions, investment opportunities, and asset management techniques. A major component of risk management is the monitoring of portfolio performance and composition so that active strategies may be implemented from time to time to improve the overall risk-adjusted performance of the portfolio.

D. ASSET MANAGEMENT

NYSTRS will generally retain Asset Managers to manage its investments and will direct Asset Managers to prepare detailed business plans for each property investment. These plans will be updated on an annual basis with the objective of maximizing risk-adjusted returns.

E. CORE PORTFOLIO

An objective of NYSTRS' real estate investment program is to maintain a "core" portfolio that limits undue risk, includes diversification, and provides relatively predictable initial yields and internal rates of return. This component of the portfolio will consist primarily of completed and substantially leased, multi-tenant properties with an established performance history. These core property types will consist of office, retail, industrial, and multi-family residential.

NYSTRS may also invest in "non-core" assets as a supplement to the core investment program. The non-core assets may include non-traditional property types and/or properties that involve development, redevelopment or leasing risks, and may require specialized acquisition or management expertise to enhance the value of the investment. The holding period for the non-core investments will generally be less than that of the core portfolio and each non-core investment must include a thorough and well-defined exit strategy.

F. ASSET ALLOCATION

The System's allocation to equity real estate investments is ten percent (10%) with a range of 6-14% (as measured by net asset value). This target may be adjusted by NYSTRS' Board in response to changing capital markets. The actual time frame for achievement of the allocation target will depend on the ability to access high-quality investment opportunities meeting the requirements of this Policy.

G. RETURN GUIDELINES

Underlying considerations for NYSTRS identification of acceptable yields and internal rates of return are as follows:

1. NYSTRS real estate capital will be invested only as high-quality property, commingled funds, and other real estate investment opportunities arise. There will be no dollar/time relationship required for the investment of allocated funds.



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2. For core investments, current cash-on-cash yields will typically be more heavily weighted than the potential for appreciation. Weightings may be modified for investments which are made outside of the core portfolio strategy.
3. Internal rate of return projections will generally be based on eight (8) to twelve (12) year anticipated holding periods. The expected holding periods will be used to calculate potential returns, but will not determine actual disposition dates. Shorter holding periods may be used as appropriate.
4. Approved internal rate of return ranges assume adoption of disposition strategies for each property asset so that any asset may be sold when its investment value has peaked and/or when such a sale is justified based on maximizing overall yields of the NYSTRS real estate portfolio. Each annual business plan will include a hold/sell analysis.
5. The real estate portfolio will be expected to achieve a minimum, long-term real rate of return of five percent (5%). The objective return for the real estate portfolio may change as directed by the Board. NYSTRS will maintain the flexibility to approve and fund investments which may not specifically comply with the individual yield and return targets, but which offer competitive risk-adjusted profit levels.

IV. REAL ESTATE INVESTMENT CRITERIA

A. INTRODUCTION

Real estate investment criteria provide investment guidelines and identify types of equity real estate investments that will be considered by NYSTRS. While the investment criteria specified herein apply most directly to specified individual property investments, it will also be used by the System and its Consultant(s) to review and evaluate the underlying characteristics and strategies of commingled funds to which NYSTRS may allocate capital. In addition, the System has established specific criteria for certain of its separate account investment programs. These criteria, which in general are more focused than those found in the Policy, are described in the Appendices to the Policy.

Each section of the Real Estate Investment Criteria will be used in conjunction with all other sections so that any potential investment must meet a wide range of requirements in order to qualify for consideration by NYSTRS.

B. DISCRETION

NYSTRS will retain discretion over the decision to invest after detailed analysis of the original due diligence and underwriting of the Investment Proposal Source and/or Advisor and will retain discretion, in direct proportion to its ownership interest, over the adoption and maintenance of individual property management and operating policies. NYSTRS' Board may delegate discretion to staff and/or Advisors as deemed appropriate and necessary for certain investment programs.

C. INVESTMENT STRUCTURES

NYSTRS will give first priority to investing in specified properties where it will be the sole investor or in which it can obtain a controlling interest. Exceptions may be made in



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the case of extremely large transactions or transactions which may involve a portfolio of properties or where justified by the expected risk-adjusted return or where the market dictates having a partner such as a REIT (i.e. Retail).

D. OWNERSHIP STRUCTURES

NYSTRS may utilize the following ownership structures in its equity real estate program:

1. Unleveraged Acquisitions

Since emphasis is placed on the degree of equity orientation and minimization of financial risk, NYSTRS has a preference for acquiring properties not encumbered by debt.

2. Leveraged Acquisitions

NYSTRS may only make such leveraged acquisitions as are permitted by statute. It will typically not acquire a property on a leveraged basis unless the property is encumbered by well-margined, traditional debt providing positive leverage or the pricing on above-market debt is reflected in a reduction of the property's purchase price.

3. Equity-Oriented Debt

Properly structured participating or participating/convertible debt investments are investment methods which may be considered. Any mortgage financing will normally be senior to all other debt or lease on any property. Loan structuring features shall typically include a pay rate equal to the contract interest rate, or a partial interest accrual, acceptable debt service coverage by actual cash flow from the property, satisfactory participation levels in annual and residual income and value, a proper conversion option, and creditworthy borrowers.

4. Equity/Debt Combinations

Equity/debt combination investment opportunities will principally be underwritten according to NYSTRS' requirements for both ownership and mortgage loan investments. Emphasis will typically be placed on equity/debt combination transactions involving the purchase of the ground beneath an income-producing property and the granting of a participating leasehold loan on the improvements.

5. Joint Venture/Partnerships

NYSTRS may consider joint venture or partnership investments defined as any asset of which less than one-hundred percent (100%) is owned by NYSTRS. This includes leveraged and unleveraged properties. The underwriting of such an investment will include an analysis of the joint venture partner(s) in addition to the normal underwriting.

6. Real Estate Investment Trusts (REITs)

REITs and Real Estate Operating Companies (REOCs) are two types of real estate securities which may be considered for investment by both NYSTRS' real estate securities fund managers as part of a diversified, actively managed portfolio and NYSTRS directly, as concentrated strategic investments. Investment criteria for real estate securities investments are described in Appendix C. In addition, REITs and REOCs (both public and private) are two forms of ownership structures that



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may be utilized from time to time for separate account investments for strategic or tactical reasons.

E. PROPERTY STATUS

NYSTRS may invest in the following stages of a property's investment life cycle:

1. Stabilized

Investments will generally focus on operating properties. Stabilized properties have a physical and financial record and are eighty percent (80%) or more leased. Such properties have typically experienced at least one (1) full leasing cycle and have a relatively mature tenant mix.

2. Leasing

NYSTRS may consider properties in the leasing stage of the investment life cycle. Properties in the leasing stage are defined as being fully completed and ready for occupancy but less than eighty percent (80%) leased. Acceptance of a relative degree of risk inherent in these properties should be offset by overall yield potential and fulfillment of other portfolio objectives.

3. Developmental

NYSTRS may consider developmental properties, defined as those under construction or in a pre-construction phase. Appropriate structures will be required to avoid or minimize development and/or leasing risk.

4. Re-Developmental

NYSTRS may consider rehabilitative or redevelopment properties, defined as those typically having functional and/or economic obsolescence to the extent that correction of these conditions can create a meaningful economic improvement to the property.

5. Opportunistic

Appropriate for inclusion in NYSTRS' investment criteria are opportunistic properties which may not fall into the foregoing property status categories. Such properties are defined as those whose current financial condition and value may be substantially enhanced by innovative asset management and/or financial structuring techniques.

For developmental, re-developmental, and opportunistic properties, NYSTRS may consider the issuance of forward purchase or funding letters. Such commitment letters may be subject to stringent completion and occupancy requirements and require funding within a specific time period (typically one (1) year) from the date of the issuance of the commitment letter.

F. TENANT MIX

A reasonable mix of national credit tenants, regional, or local credit tenants and other local tenants is considered desirable for all property types except multi-family residential, lodging, and land.



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Investment in single-tenant properties may be considered; however, such properties must generate competitive immediate cash yields. Emphasis will be placed on properties with a design and location conducive to conversion to multiple tenant use at the time of lease expiration.

G. PROPERTY LOCATIONS

NYSTRS' real estate investments will be diversified across geographic and economic regions to allow for competitive portfolio performance in the event of a temporary weakness in any one region and to allow for differing urban and suburban market trends within any region.

Primary market selection factors include:

1. Broad-based local economy with growth potential;
2. Supply constraints for the subject property type;
3. Proven demand for the subject property type;
4. Proximity to complementary, synergistic land uses; and
5. Availability of necessary infrastructure.

H. PROPERTY TYPES

NYSTRS may invest in the following property types:

1. Office

Acceptable subcategories within the office property type include garden, or low-rise buildings, business/technological parks, mid-rise, and high-rise properties. Necessary office building design and physical characteristics must be considered on a property-by-property basis within the context of individual location, site, plottage, intended use, and tenant mix. NYSTRS shall primarily pursue office properties located in central business districts, suburbs of major urban areas, and infill sites.

2. Retail

Shopping centers acceptable for investment include regional malls, power centers, community centers, neighborhood centers, and lifestyle centers.

3. Industrial

Industrial properties acceptable for investment include industrial parks and individual buildings or groups of buildings located in an industrial park. Freestanding buildings will be selectively considered. Uses may include: distribution, warehouse, light manufacturing, research and development, incubator space, and showroom.

NYSTRS has developed an industrial investment program that focuses on the acquisition of industrial properties or portfolios with gross property values ranging from \$3.0 million to \$50.0 million in gross market value. Investment criteria for this program are described in Appendix A. Acquisitions of industrial properties in excess of \$50.0 million are acceptable, but are not part of the program described in



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Appendix A. To the extent the transaction does not meet this criteria, the approval/closing process for other separate account acquisitions covered by this Policy Manual should be used.

4. Residential

NYSTRS has developed a residential investment program that focuses on the acquisition of apartment projects with gross property values ranging from \$5.0 million to \$50.0 million in gross market value. Investment criteria for this program are described in Appendix B. Acquisitions of apartment projects in excess of \$50.0 million are acceptable, but are not part of the program described in Appendix B. To the extent the transaction does not meet this criteria, the approval/closing process for other separate account acquisitions covered by this Policy Manual should be used.

5. Lodging

Hotel properties are included in NYSTRS' investment criteria. However, only well-established hotel properties with experienced management companies will be considered for investment. NYSTRS will prefer larger hotels (in excess of one-hundred (100) rooms) and priority will be given to proven, urban and suburban properties which are specifically designed for targeted types of guests. NYSTRS will avoid properties facing competition from saturated markets and specialty lodging units such as converted apartments.

6. Land

Two primary categories of land are included in NYSTRS' investment criteria. Of first priority is land under existing, income-producing improvements. NYSTRS will prefer ground leases which call for participation in the income of the improvements. Preference will also be given to situations where the owner of the leasehold is required to repurchase the fee (land) in the event of non-performance or other circumstances at some point in the future, or, alternatively, where NYSTRS reserves an option or first right of refusal to purchase the improvements.

The second category of acceptable land is land in the pre-development stage, but only under a stringent set of conditions:

- a. Zoned to its current highest and best use, or potential for rezoning to a higher use in the future;
- b. In the path of economic growth;
- c. Access to major transportation arteries; and
- d. Proximity to complementary and synergistic land uses.

7. Mixed-use

Mixed-use properties are used for more than one purpose. Their uses are generally complementary and of greater overall value in combination than individually. An example would be an office tower with a hotel that caters to the business traveler. The underwriting of these properties will incorporate the investment criteria set out in this Policy for each component, with proper consideration given to the synergy and increased value created by the mixed-use nature of the investment.



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I. TRANSACTION SIZE

1. Specified Property Investments

Individually committed, specified properties shall generally be at least \$10 million in investment size. Due to the smaller size of multi-family and industrial properties, exceptions may be made for these property types. In the event portfolios are acquired, individual property sizes shall generally be a minimum size of \$5 million; however they may be smaller if all of the properties are located at the same site.

No individual investment shall typically exceed one percent (1%) of the total NYSTRS' investment portfolio.

2. Commingled Fund Investments

The acceptable transaction size for each fund will depend on the asset size or contributed capital of the fund and the investment orientation of the Discretionary Manager. NYSTRS' investments in commingled funds shall generally not exceed twenty percent (20%) of fund commitments or the total asset size (current market value) of the fund.

J. ENVIRONMENTAL HAZARDS

NYSTRS gives first priority to investments in properties which comply fully with all local, state and federal government regulations regarding environmental hazards. NYSTRS may consider properties that are affected by environmental hazards, but only after a satisfactory, systematic evaluation by qualified professionals. Major pre-investment considerations include the potential risks, liabilities, and costs associated with the presence and management of the environmental hazards. Quantification of the potential liability must be made prior to investment.

V. REAL ESTATE TRANSACTION REVIEW AND CLOSING PROCESS

A. DEFINITIONS

The term "Investment Proposal Source" means any entity which submits a real estate investment proposal to NYSTRS. The Investment Proposal Source will typically be one of NYSTRS contractual Advisors. In this section, Investment Proposal Source and Advisor are used interchangeably. The term "Transaction Reviewer" means any NYSTRS' staff member responsible for the review and/or closing activities of an investment opportunity.

B. SPECIFIED PROPERTY INVESTMENTS

1. Registration Process

Investment proposals will come primarily from NYSTRS' contractual Advisors, although other sources may be considered. All valid written proposals submitted to NYSTRS will be entered into an Activity Log ("Log") maintained in System offices. No verbal proposal will be entered into the Log. A transaction is eligible for review by a Transaction Reviewer once it is entered into the Log.

In order to register a potential transaction, Advisors must prepare information on the proposed transaction in a format acceptable to NYSTRS. Additional



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information may be provided at the Advisor's discretion. The information should be provided to NYSTRS and, as determined by NYSTRS, its Real Estate Consultant.

2. Review Process

NYSTRS will review the proposed transaction and, upon request, a Consultant will assist with the review. Within fifteen (15) business days, NYSTRS will discuss its interest in the transaction with the Advisor.

Whenever requested by NYSTRS, following the registration of a proposed transaction, the Advisor will provide NYSTRS (and its Consultant, as appropriate) with a written update, identifying each transaction that the Advisor is pursuing and a brief statement as to its status. NYSTRS reserves the right, at its sole discretion, to cancel a registration at any time up to the point the Advisor presents a letter of intent executed by the seller and, in summary form, its analysis supporting the terms embodied in the letter of intent.

Whenever requested by NYSTRS, the Advisor will provide NYSTRS with evidence (e.g., cash flow projections or written proposals/communications to the seller) sufficient to demonstrate that the Advisor is making a good faith effort to acquire the property.

Upon completion of its review of the investment, the Advisor should provide NYSTRS (and its Consultant, as appropriate) with a formal investment analysis on the proposed investment.

The investment analysis shall contain as many of the general categories of information found in NYSTRS' Standard Investment Package Checklist (Checklist) as are available to the Advisor at this stage of the review and are deemed appropriate by NYSTRS.

Upon preliminary approval of the transaction, the property and its market area shall be inspected by senior management of the Investment Proposal Source and, as deemed appropriate, by NYSTRS and/or the Consultant.

In the event that the Advisor has executed a Letter of Intent on behalf of NYSTRS, a copy should be sent to NYSTRS as soon as possible. The Letter of Intent will state that NYSTRS' commitment is contingent upon its approval of the completed investment analysis. The Letter of Intent shall generally describe NYSTRS' due diligence, approval, and closing processes and expected timing of the transaction.

After the Letter of Intent has been signed, the Transaction Reviewer will devise a time schedule for receipt, review, and action by NYSTRS of all required documentation, including an estimated closing date. In general, the timing of the submission must allow NYSTRS a minimum of twenty (20) working days for review prior to its distribution to the Real Estate Advisory Committee (REAC). The Advisor will identify potential conflicts of interest in the investment analysis.

3. Environmental Hazard Review

Of primary importance to the proper assessment and management of environmental risks is a documented, detailed level of inquiry during the investment analysis process to detect any potential hazard (including those from hazardous waste, toxic waste, radon, asbestos, mold, or unknown origin). A Phase I



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environmental review of direct property investment pursued by NYSTRS will be required to include, as applicable:

- a. Assessment of all applicable federal, state, and local environmental regulations;
- b. A physical inspection of the property and its site to determine if any environmental hazards (including asbestos and mold) are present;
- c. A survey of the property, its site, and adjacent properties and sites to identify any materials or wastes which may be present as surface or subsurface contamination, including sources of potential contamination; and
- d. A review of the property lease agreements to ascertain the actual or potential use of environmental hazards by tenants and tenant and landlord responsibilities regarding same.

The outcome of studies conducted during the investment analysis stage is intended to enable NYSTRS to quantify the extent of environmental hazard liabilities of a prospective property investment and to identify alternative means for addressing such liabilities. If any environmental hazards are found, such quantification by NYSTRS includes:

- a. The establishment of an operations and management program for controlling or abating any environmental hazard;
- b. Negotiation of a purchase or investment agreement to account for the costs involved for the operation and management program and/or to provide for recourse against the seller (or borrower) for any present or future environmental hazard liabilities; and
- c. The review and re-negotiation of lease agreements, including indemnification clauses, to transfer the responsibility and liability for the disposal or treatment of hazardous substances to a property's tenants.

The intent of the foregoing requirements of this Policy is to enable NYSTRS to understand and control environmental hazard liabilities associated with real estate investments and to allow NYSTRS the ability to consider investment in properties so affected.

No acquisition of a property shall be consummated by NYSTRS without proper legal advice regarding quantification and minimization of legal liability issues associated with asbestos or potential asbestos hazardous situations or with any other material environmental issues affecting the property. The rendering of such legal opinions shall include the responsibilities, as appropriate on a case-by-case basis, of a property seller or borrower and NYSTRS to tenants, workers, employees, lenders, and potential buyers. Internal or external legal advice to NYSTRS shall include potential NYSTRS liability and remedies of the above personnel classifications from NYSTRS.

NYSTRS shall require, to the extent possible, that a property seller or borrower and other entities shown in a property's chain of title warrant to NYSTRS that the property is not in violation of any federal, state, or local law, ordinance, regulation, or order relating to industrial hygiene or to environmental conditions on or about the property. For each potential property acquisition NYSTRS, through assistance of its Advisors, shall explore the potential for insuring against environmental problems.



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4. Approval Process

Investment proposals are presented to NYSTRS' senior real estate staff for review, analysis, discussion, and approval. Other than investments made pursuant to Appendix A and Appendix B of this policy, proposed investments will be scheduled as an agenda item for NYSTRS' Internal Investment Committee and, upon approval, at the next REAC meeting upon concurrence of the validity of the equity investment opportunity by the Managing Director of Real Estate and other designated NYSTRS staff. If a favorable recommendation is received from the REAC, the proposed investment will be presented to the Investment Committee of the Retirement Board or Executive Director/CIO (as appropriate) for approval.

5. Closing Process

Upon approval by staff, the Internal Investment Committee, REAC and the Investment Committee of the Retirement Board or Executive Director/CIO (as appropriate), the Advisor, and designated NYSTRS staff will schedule the closing process and prepare a Closing Checklist. The Closing Checklist shall indicate responsible parties for approving each checklist item (Advisor, legal counsel, staff, Managing Director of Real Estate, etc.). Along with this Closing Checklist will be a budget for cost items to be incurred during the closing process with specification as to who is to incur each cost.

Compliance with all Closing Checklist items is the responsibility of the Advisor. The Advisor shall hire outside professionals (civil engineers, structural engineers, architects, appraisers, etc.) necessary to provide proper due diligence on behalf of NYSTRS for each property transaction. The hiring and scope of work of such professionals is subject to NYSTRS' consent. In addition, NYSTRS, at its sole option, may choose to directly hire such professionals.

Outside counsel shall be selected and will typically be required to review and/or prepare as necessary the investment contracts and any other pertinent documents related to the transaction for compliance with state statutes and other matters related to the transaction.

At the time the Closing Checklist is prepared, the Advisor will specify an anticipated closing date. This date, the funding requirements, and the amount of funds required at closing will be specified so that the appropriate funds may be set aside for the acquisition and bank accounts can be opened. A time and place of closing will also be specified.

After the due diligence review and upon completion of the , review, and approval of the Closing Checklist items, a final recommendation shall be issued by the Advisor. The recommendation shall include an attestation to the sufficiency of all Closing Checklist items stating the following:

- a. All conditions to closing checklist items have been met (or list all outstanding items and their status); and
- b. To the best of the Advisor's knowledge, verification that there has been no material changes since the Advisor's initial review of the investment opportunity of any physical property, market area, or economic factors that would cause the investment to be of lower quality than that which has been reviewed by the Advisor.



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Prior to closing, the Advisor will submit to NYSTRS (and its Consultant, as appropriate) the recommendation letter and a full, complete investment package in a format specified by NYSTRS.

No closing will occur without the formal sign off of the closing report by the Managing Director of Real Estate or designee (and NYSTRS' Consultant, as appropriate).

As soon as practicable after the closing (generally within thirty (30) working days), the Advisor will provide NYSTRS with a Closing Binder. The Closing Binder will hold all pertinent original documentation pertaining to the transaction review, approval, and closing processes, approved initial business plan, and various exhibits demonstrating performance and operational monitoring and reporting systems. An additional copy of the Closing Binder shall be provided in electronic form to the extent possible.

Based on agreements made during the closing process, NYSTRS may accept certified copies of certain documents in lieu of originals. In this event, NYSTRS must approve the location of original documents and the holder of the original documents shall be required to obtain written approval from NYSTRS before moving these documents.

Immediately after the closing, the Advisor must prepare and submit to the Managing Director of Real Estate a reconciliation detailing the specific use of all amounts funded by NYSTRS. Any excess funds should be returned to NYSTRS immediately and the reconciliation must explain the intended use of any funds which were not returned.

C. COMMINGLED FUND INVESTMENTS

1. Review Process

NYSTRS staff will regularly review commingled fund investment opportunities which are accepting new or additional real estate capital. These investments will be reviewed based on the investment criteria defined in this Policy. Those which satisfy these criteria will be further evaluated. The evaluation will include, but not be limited to, the following critical review areas:

I. Fund Structure

A. Type

1. Closed-end
2. Open-end
3. Other including REITs and specified property pools

B. Asset Size

1. Closed-end: Minimum/Maximum subscription level
2. Open-end: Current total asset size
3. Other: Projected offering size/total capitalization and percentage of capital held in non-real estate assets

C. Term

1. Open-end: In perpetuity
2. Closed-end: Targeted closing date for new subscriptions; and anticipated termination
3. Other: Finite/infinite

D. Investor Rights and Remedies

1. Compliance with applicable statutes



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- 2. Withdrawal provisions
- E. Legal Form
 - 1. Compatibility of Fund documents with NYSTRS' tax-exempt status
 - 2. Allowance of appropriate degree of NYSTRS' influence or control
- II. Potential Orientation
 - A. Investment Methods
 - B. Property Status
 - C. Property Locations
 - D. Property Types
 - E. Individual Transaction Sizes
 - F. Property Life Cycle Stages
 - G. First mortgage and subordinated debt
- III. Qualifications of Manager
 - A. Historical Performance (nominal/real, gross/net, and risk adjusted)
 - B. Investment Orientation and Strategy
- IV. Stability/Strength of Manager
 - A. Organizational Structure
 - 1. Acquisitions
 - 2. Asset/property management
 - 3. Dispositions
 - B. Consistency of Key Professionals
 - C. Asset/Property Management Policies and Procedures
 - D. Reporting Capabilities

2. Approval Process

Based on an evaluation in conformance with the above-described criteria, the Consultant may submit a written recommendation for investment in a commingled fund to NYSTRS. In the case of follow-on investments with existing fund sponsors/general partners, the review may be completed by NYSTRS' staff for approval by the Managing Director of Real Estate. With the approval by the Managing Director of Real Estate, a new investment will be scheduled as an agenda item at the next Internal Investment Committee . All commingled fund investments either require Investment Committee of the Retirement Board approval or approval of the Executive Director/CIO as delegated by the Board. Such approval may be obtained by a mail canvas of the Investment Committee of the Retirement Board as approved by the Executive Director/CIO.

3. Closing Process

Upon approval, a designated staff member or the Consultant shall request the Sponsor of the commingled fund investment to submit its contract to NYSTRS. NYSTRS will have its Counsel review the contract for compliance with appropriate statutes and may have the Consultant review it for compliance with the terms upon which it was approved.

Following execution of the contract by NYSTRS, a designated staff member will file all pertinent original documentation, including the contract, offering memorandum, recommendations of the Managing Director of Real Estate and Consultant as applicable, and the approval of the Investment Committee of the Retirement Board.



VI. ASSET MANAGEMENT POLICIES AND PROCEDURES

A. INTRODUCTION

The term “asset management” as it pertains to NYSTRS’ real estate investment program encompasses all activities relating to the operations of the real estate investments in commingled funds and specified properties owned by NYSTRS and the timely and accurate reporting of the results of those operations.

While the asset management policies and procedures may not apply uniformly in all detail to NYSTRS’ commingled fund investments, the Discretionary Managers of the funds shall be required to have well defined asset management policies and procedures in substantial conformance with the requirements of this section.

B. RESPONSIBILITY

Asset Managers shall:

1. Recommend annual operating and capital budgets for property assets;
2. Execute property-level contracts with service providers;
3. Recommend or select special project professionals such as environmental, engineering, appraisers, and property managers;
4. Negotiate proper insurance coverage and submit to NYSTRS’ insurance consultant for review and approval;
5. Ensure that all property-level taxes and assessments are paid on a timely basis;
6. Approve and execute contracts for capital improvements on any property which are in accordance with a budget previously approved by NYSTRS;
7. Approve and execute leases that are consistent with the leasing guidelines contained in the annual business plan;
8. Recommend property disposition strategies and opportunities for properties under their management;
9. Provide property-level operational and economic information as required by NYSTRS to facilitate appraisal, audit, and reporting practices;
10. Protect and defend NYSTRS’ interests in any property as may be warranted by any event of an emergency or extenuating nature;
11. Approve contracts for capital improvements on properties under their management, as negotiated, in amounts not in excess of five percent (5%) of the market value of each asset;
12. Attend partnership meetings and/or represent NYSTRS at all meetings relating to the asset management policies and procedures for the assets under their management, unless otherwise specified by the Managing Director of Real Estate or designee; and



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13. Provide prompt notification to the Managing Director of Real Estate or designee of any pending legal action or any material fact which may adversely affect the operations of the property.

With respect to all real property assets either owned outright, owned as an interest therein, or as a security interest therein such as a deed of trust or mortgage, NYSTRS shall either have final authority for or in the case of co-investments, the investment instruments shall provide parameters controlling: (1) the sale or refinancing of all or any fractional ownership interest and (2) substantive changes to ownership or security interests.

For investments which are solely owned by NYSTRS as well as co-investments, to the extent deemed necessary to protect NYSTRS' interests, the Managing Director of Real Estate or designee shall:

1. Review and authorize annual operating and capital budgets for all property assets within parameters specified in the Permanent Policies and Procedures subsection;
2. Approve expenditures for capital improvements, including lease-related tenant improvements, as negotiated and recommended by the Asset Managers;
3. Approve for execution all management agreements, changes, authorizations, and amendments, with approval of legal counsel, if applicable;
4. Select special professionals such as engineers and appraisers or approve same as may be recommended by NYSTRS' external real estate professionals;
5. As deemed appropriate, attend and represent NYSTRS at meetings pertaining to asset management policies and procedures for the assets managed by Asset Managers;
6. Take all other reasonable actions necessary for preservation of the assets;
7. Report to the Real Estate Advisory Committee and/or Investment Committee of the Retirement Board on actions taken under these and other delegations of authority which have a significant effect on the value of any real estate asset and/or the real estate portfolio;
8. Monitor the execution of the delegations of authority granted to the Asset Managers;
9. Ensure that appropriate types and levels of insurance are in force at all properties including, but not be limited to, multi-peril, general liability, and rental income recovery; that Asset Managers have in force appropriate levels of Errors and Omissions Insurance; and that all property managers have in force reasonable levels of liability insurance evidenced by a certificate of coverage on file in the appropriate asset management files maintained with the Asset Manager;
10. Recommend property disposition strategies and disposition opportunities; and
11. Ensure that all property level taxes and assessments are paid on a timely basis on each property investment, with copies of payment receipts on file in the appropriate asset management files maintained with the Asset Manager.

C. PRELIMINARY POLICIES AND PROCEDURES

Advisors shall prepare preliminary asset management policy statements during the transaction review and closing process for approval by NYSTRS prior to funding.



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A preliminary asset management policy and procedures statement will include, when applicable:

1. Identification of property managers and leasing agents;
2. Initial leasing goals and objectives and lease structures;
3. Environmental risk management plan;
4. Market positioning related to competitive properties and other market influences;
5. Reporting timing procedures and methodology; and
6. Preliminary disposition strategies.

D. PERMANENT POLICIES AND PROCEDURES

Permanent asset management policies and procedures shall be defined and adopted in accordance with the following requirements:

1. Annual Business Plan

a. Purpose

The purpose of the annual business plan is to describe the operating plan for the property over the short and long term. The annual business plan also defines the limits within which the Asset Manager can operate.

b. Timing

An initial business plan will be submitted by the Asset Manager for approval by the Managing Director of Real Estate no later than forty-five (45) days after the funding of the investment. The plan must be updated by the Asset Manager and submitted to NYSTRS thirty (30) days before the beginning of the fiscal year. NYSTRS will schedule annual meetings with the Asset Managers to review the plan.

In subsequent years, the annual business plan will be prepared and submitted to NYSTRS no later than thirty (30) days prior to the beginning of the fiscal year.

c. Information Requirements

Asset managers shall prepare initial and subsequent business plans that satisfy the information requirements as specified by NYSTRS. The Managing Director of Real Estate or designee is responsible for reviewing and authorizing each business plan, and when required, prepare the corporate resolution adopting the plan.

2. Reporting

a. Annual Business Plans

The requirements and timing for the annual business plans are discussed in the subsection Annual Business Plan.

b. Monthly Reports



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Asset Managers shall require monthly financial and operating reports from Property Managers and Leasing Agents. Such reports will be in accordance with NYSTRS' established asset management policies and procedures. It is important that the Property Manager provide the Asset Manager with a statement of the physical vacancy factors for each month and a comparison of said factors to the monthly and year-to-date budgeted vacancy factors. The property manager shall also provide to the Asset Manager a list of material tenant complaints regarding physical and operational items and a schedule of corrective measures, including the cost of same. The Leasing Agent shall provide to the Asset Manager a leasing status report. The report should address present lease negotiations and status of existing vacancy and upcoming expirations. Required monthly reports shall be delivered by the Property Manager and Leasing Agent to the Asset Manager within fifteen (15) working days after the end of each month.

Asset Managers shall reconcile these reports to NYSTRS' cash received, budgets, approved leasing and operating policies, and accounting procedures and shall submit a monthly report to the NYSTRS Managing Director of Real Estate or designee. The monthly report will contain information as specified by NYSTRS. The monthly reports shall be delivered to NYSTRS by the Asset Managers within thirty (30) working days after the end of each month.

c. Quarterly Reports

Each calendar quarter, the Asset Managers shall prepare, on a fair market value basis, an operating and status report. This report will contain individual property information as well as consolidated information for all properties the Asset Manager manages for NYSTRS. Required quarterly reports shall be delivered to NYSTRS within forty-five (45) working days after the end of each calendar quarter. The report shall contain information as specified by NYSTRS. The Managing Director of Real Estate or designee shall maintain all monthly and quarterly reports in the NYSTRS' real estate program filing system.

3. Valuations

a. Independent Third-Party Appraisals

Independent third-party appraisals shall be conducted on NYSTRS' core real estate assets every three (3) years. The scope (full appraisal versus appraisal update) and timing of interim appraisals will be determined by NYSTRS based upon known market changes and recommendations from the Advisors. NYSTRS has the right to request an interim appraisal for any asset at any time.

NYSTRS shall maintain a listing of several MAI (Member of the Appraisal Institute) or equivalently qualified appraisers and will engage one (1) or more to conduct the scheduled or required appraisals on the individual property assets. The selection process shall be the responsibility of the Managing Director of Real Estate or designee. The screening process includes the following: (1) a request for information; (2) an interview with the appropriate parties; (3) submission of a sample report(s) and a review of said report(s) by NYSTRS; and (4) a minimum of three (3) references, preferably from institutional investors comparable to NYSTRS. The list shall be regularly monitored by the Managing Director of Real Estate or designee. The Asset Managers may



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submit a list of recommended appraisers to NYSTRS for consideration. However, NYSTRS has final authority regarding the selection of appraisers.

For property level investments wholly-owned by NYSTRS, appraisers will be engaged directly by NYSTRS. NYSTRS will be responsible for coordination of the appraisal process and review of appraisal reports, although the Advisor or other third parties may assist with these activities at NYSTRS' discretion. All appraisals shall comply with the uniform standards of the Professional Appraisal Foundation and the Appraisal Institute. Original copies of the appraisal reports (either hard copies or electronic files) shall become part of the permanent files maintained by NYSTRS for each property.

The cost of the appraisal shall be borne by NYSTRS.

b. Internal Valuations

In addition, the Asset Manager will value each property quarterly consistent with the best practices prevailing within the real estate appraisal and real estate investment management industries including NCREIF's Real Estate Information Standards (REIS). The Asset Manager will provide NYSTRS with a summary of the key assumptions used and reasons for any significant change in value from the prior valuation.

c. Market Valuations

The reported market value for the property will be the lower of the two (2) valuations for years in which a third party appraisal is obtained.

4. Property Management and Leasing

Annual property management and leasing guidelines shall be identified by Asset Managers and recommended for approval by the Managing Director of Real Estate or designee in the initial business plan and updated in subsequent business plans. These guidelines shall consist of the following: lease provisions and terms, rent levels (specifying gross, net, and net effective rents), marketing strategies, and property management and leasing contract conditions (including compensation for Property Managers and Leasing Agents).

a. Selection of a Property Manager and Leasing Agent

Asset Managers shall recommend a Property Manager and Leasing Agent for each property asset to NYSTRS for approval. The property management and leasing functions may or may not be performed by the same company.

Asset Managers shall interview and perform due diligence on several potential Property Managers and Leasing Agents for any property prior to making said recommendation. Included for consideration shall be the level of fees, the track records of the companies, the companies' familiarity with the subject property asset or assets, and the specification of named employees to be involved with NYSTRS' property. Potential Property Managers and Leasing Agents shall be required to divulge any existing or potential business relationship with any existing or potential contractor for any NYSTRS property.

Any Asset Manager may recommend itself as the Property Manager and/or Leasing Agent if it is willing to compete on a competitive basis (in terms of fees,



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capabilities, and familiarity with the subject property) to provide such services for any asset. After approval by the Managing Director of Real Estate or designee, the Asset Manager may engage the Property Manager and Leasing Agent.

b. Duties and Responsibilities of Property Managers and Leasing Agents

Property Managers and Leasing Agents will typically be required to have an on-site office at each asset which will be open and staffed during normal business hours and will have a visible, specified address and phone number. At the discretion of the Managing Director of Real Estate, smaller properties and properties which are fully leased and occupied may require less than full-time presence by on-site personnel. The Property Manager and Leasing Agent shall provide personnel and systems at the levels necessary to support the property and comply with adopted management practices.

Personnel of Property Managers and Leasing Agents responsible for the handling of cash or who are signatories on any property-related bank account shall be sufficiently bonded. Written evidence of such bonding shall be provided to NYSTRS, as requested. Property Managers shall perform their duties in accordance with the terms of a Property Management Agreement approved by NYSTRS.

Asset Managers may use discretion as to the information and documentation requirements that Property Managers must follow. However, any such delegation of work product shall not remove the Asset Manager from the responsibility of providing said product in approved form and detail to NYSTRS.

The Property Manager shall be specifically required to provide and oversee the following:

1. Employment and payment of specified, named employees sufficient to manage the property assets;
2. Coverage of its own overhead;
3. Maintenance of accounting records in compliance with NYSTRS' requirements;
4. Collection of all rents and miscellaneous sources of income;
5. Appeal, if so directed by NYSTRS, reassessments of property taxes;
6. Payment of all bills and settlement of all claims, not to exceed an amount established by the Asset Manager;
7. Keeping of all buildings and other improvements in good order, repair, and condition;
8. Immediate provision of emergency repairs and services to the property;
9. Operation and maintenance of the property in accordance with all statutes, laws, and regulations of all appropriate governmental agencies;
10. Negotiation of contracts for utilities and the provision of all required utility services to the property;
11. Distribution to NYSTRS of all required cash at the specified time periods;
12. Prompt notification of the Asset Manager of any condition of the property or its operations which fails to meet the requirements of adopted Asset



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Management Policies and Procedures, any pending legal action, or any fact whatsoever which may adversely affect the operations of the property in any material way;

13. Provision of Workmen's Compensation and other insurance which may be deemed required by NYSTRS; and
14. Comply with any other requirements of NYSTRS or the Asset Manager.

Leasing Agents shall perform their duties in accordance with the terms of a Leasing Agreement approved by the Asset Manager and NYSTRS. Asset Managers shall be responsible for the implementation by the Leasing Agent of approved leasing practices and the supervision of individual property leasing activity. In addition to the definition of appropriate rent levels and lease structures, Asset Managers shall designate marketing strategies which consider the necessity for tenant concessions, tenant improvement costs, market surveys, and advertising programs and expenses.

c. Leasing Policies and Procedures

Asset Managers shall be required to obtain the approval of the NYSTRS Managing Director of Real Estate or designee for any change in leasing policy or any proposed lease which falls outside the approved leasing guidelines. To the extent possible, all new leases for any property asset shall be on a standardized form.

To the extent necessary, NYSTRS shall be provided with lease abstracts by the Asset Manager immediately upon the funding of any wholly-owned property and for any new leases consummated thereafter.

Property Managers and Leasing Agents shall report to the Asset Managers in accordance with the Reporting sub-section.

5. Property Inspection

In addition to requiring regular feedback from the on-site Property Manager regarding the physical condition of any property, competitive factors, and specific market area trends affecting the property, an Asset Manager shall be required to physically inspect the property, its neighborhood, and its general market area at least once quarterly, unless otherwise provided for in the permanent Business Plan for the property.

The physical premises shall be inspected for the purpose of maintaining conformance with tenant improvement and other capital expenditure budget items and to designate specific procedures to avoid incurrence of unwarranted future capital expenditures either through continued deferred maintenance or functional obsolescence.

The Asset Manager shall also personally inspect the property's neighborhood and general market area to determine the status of competitive properties, to ascertain the level of rents being charged and tenant concessions being granted, and other area features, such as changing road patterns, rezoning activity and local developments which may in any way affect the current or future operations and valuation of any NYSTRS property.



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The information derived from the property inspection shall be communicated to NYSTRS in the quarterly report (unless something is noted warranting immediate notification) and used as a basis for modifications to the annual business plan. NYSTRS' staff shall inspect each property as frequently as staffing levels permit and property conditions require, but not less than once every three (3) years. Properties held in the two operating companies, Donahue Schriber and Edens and Avant, are inspected by the staff of the operating companies and are not subject to this requirement.

6. Audits

NYSTRS requires an annual audit of all direct equity, joint venture, and discretionary fund assets. The audit should be performed by an independent certified public accountant. For wholly owned properties, the Managing Director of Real Estate or designee will engage the independent certified public accountant and all audit reports and findings as a result of the audit will be directly communicated to the Managing Director of Real Estate or designee. All audit reports should be provided to NYSTRS within one-hundred eighty (180) days of the holding entity's year-end.

7. Accounting

For specified property investments, the accounting systems employed by the Property Manager, Asset Manager, and internally by NYSTRS are on a fair value basis. The Property Manager and Asset Manager will be responsible for the proper reporting of free rent, capitalization of acquisition fees, tenant improvements, tenant allowances, leasing commissions, leasehold improvements, building improvements, and overall valuation of the assets. Discretionary Manager and Advisor fees will be expensed on NYSTRS books.

The accounting for all activity for each property asset shall be established at the property level by the Asset Manager and Property Manager and at the portfolio level by NYSTRS in substantial conformity with generally accepted accounting principles.

A cash management system with the proper level of internal controls by the Property Manager and the Asset Manager over all cash receipt and cash disbursement items is critical to NYSTRS. In accordance with the previously specified duties and responsibilities of the Leasing Agents, Property Managers, and Asset Managers, rents and miscellaneous sources of income shall be collected and expenses paid at the property level. All property operating bank accounts shall have as signatories appropriate personnel of the Property and Asset Manager. The Asset Manager will submit the name(s) of bank(s) and account number(s) for NYSTRS' approval.

Excess funds held in bank accounts by the Property Manager or Asset Manager should be sufficient to cover anticipated expenses up to two (2) months. Funds that are held in bank accounts as compensating balances to reduce fees and/or charges by the Property Manager and/or Asset Manager shall be communicated to NYSTRS' Real Estate Department.

Unless NYSTRS provides prior approval for a different schedule, the frequency of excess cash distributions to NYSTRS should be at least monthly. The Asset

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Manager should submit a letter monthly indicating whether a cash distribution will be made for the period. The dates of the distributions should be consistent from month to month based on the collection of rents and payment of expenses. The Asset Manager will be responsible to provide NYSTRS' Investment Information and Real Estate Departments with prior notification of the amounts and expected delivery dates of the transfers, to monitor the timely transfers of funds to NYSTRS' account, and to ensure that confirmations of the transfers are immediately provided to the Managing Director of Real Estate. The wired funds will include a description on the wire as to the property name and what the distribution is for such as mortgage payment and/or cash flow distributions. Within three (3) days prior to the transfer of funds to the NYSTRS account, the Asset Manager shall make certain that a reconciliation statement is sent to NYSTRS' Managing Director of Real Estate and to the Investment Information Department showing the following:

- a. The date of the distribution;
- b. The source and amount of wired funds by subsidiary corporation or joint venture;
- c. The category of wired capital (operating distribution capital distribution, interest earned, mortgage payment, etc.); and
- d. Any appropriate explanatory notes.

The Asset Managers will typically be paid their asset management fee in arrears. The asset management fees should not be deducted from monthly distributions. NYSTRS will pay authorized asset management fees via warrant.

8. Environmental Policy

For all real property assets with any defined or potential environmental hazard, NYSTRS will adopt an environmental hazard management plan as a part of its permanent asset management policies and procedures as defined in the business plan. No property investment should be consummated without full compliance with all requirements enumerated in the section entitled Environmental Hazard Review of this Real Estate Policy.

The basic objective of a property-specific environmental hazard management plan is to manage risk by providing awareness of any potential hazard (including those from hazardous waste, toxic waste, radon, asbestos, toxic mold, or unknown origin) to any person in occupancy at any property, facilitate abatement or cleanup of any hazard, reduce to the extent possible future adverse effects from the existence of any hazard, continually monitor the effect on a property and its tenants from any hazard, and minimize the potential liability of NYSTRS.

Since asbestos is a common hazard, NYSTRS has developed guidelines for addressing asbestos issues. Asbestos risk management programs may include:

- a. Removal of all Asbestos Containing Material (ACMs) at one time;
- b. Removal of ACMs over an identified time period;
- c. Encapsulation of all problem areas, either at one time or over a scheduled period; or
- d. If undisturbed, with little potential for future disturbance, it may be left in place.

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Where NYSTRS elects to remove ACMs, as specified in an approved asbestos management/maintenance program, specifications for such removal will be prepared by a qualified consultant. Such specifications will detail the extent of the asbestos removal and abatement and control procedures needed to complete the removal. Identification of a property's specific building codes or other local, regional, or federal governmental regulations will be included in the specifications designed by the consultant. The consultant will assist in selection of a contractor to perform the work and will monitor all work undertaken. Such monitoring activities will include industrial hygiene air monitoring to determine the levels of airborne concentrations of fiber. Sampling will be conducted in accordance with Occupational Health and Safety Administration (OSHA) guidelines.

The Advisor shall be responsible for rescheduling inspection and surveillance of each property for which any asbestos testing has revealed the presence, or possible presence, of ACMs. Follow-up reports will be made a part of the NYSTRS asset management policies and procedures plan for the specified property asset. No less often than annually, the Advisor shall include in its reports to NYSTRS (and NYSTRS' Consultant, as applicable) updated information regarding asbestos surveillance activities.

VII. DISPOSITION PROCEDURES**A. DISPOSITION PLAN**

Asset Managers are required to conduct a formal hold/sell analysis for all of NYSTRS' real estate investments as part of the annual business planning process. As dictated by market conditions and other events, the Asset Manager may also propose a sale at other times. In the event an Asset Manager determines that an asset should be sold, the Asset Manager shall provide the Managing Director of Real Estate or designee (via the business plan, quarterly report, or on an as needed basis) with the following:

1. Specific reasons for the recommendation;
2. Structure of disposition (outright sale, partial sale, etc.);
3. Potential gross disposition price and basis for said price assumption;
4. Identification of potential buyers;
5. Process for implementing any disposition decisions (need for brokers, appraisers, engineers, other professionals);
6. Anticipated disposition period and closing date;
7. Estimated costs of sale;
8. Estimated net disposition proceeds;
9. Estimated cash received from sale by NYSTRS;
10. Estimated NYSTRS' internal rate of return for the asset's holding period;
11. Conflict of Interest clearance form executed by the Advisor in the format specified by NYSTRS;
12. Any existing legal limitations with respect to the sale (e.g. right of first offer, right of first refusal, lockout periods, any other options, etc); and



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13. A summary of any trailing liability issues (if any) that NYSTRS would have to consider related to the sale.

In the event NYSTRS approves the disposition of the investment, the Managing Director of Real Estate may retain outside professionals to implement the disposition decision.

B. PROCEDURES FOR OFFERS TO PURCHASE

Any offer made to an Asset Manager or solicited by NYSTRS or an Asset Manager for the acquisition of any asset or investment position shall be presented to NYSTRS by the Asset Manager. The presentation shall include:

1. Gross offering price, disposition costs, and net disposition proceeds;
2. Disposition proceeds, disbursement schedule, including Asset Manager, Advisor, or Joint Venture Partner sharing in such proceeds and the share of proceeds to be retained by NYSTRS;
3. The anticipated closing date;
4. For recommended offers, an estimate of NYSTRS' net internal rate of return as of the anticipated closing date;
5. List of conditions precedent to closing;
6. Summary of any competitive offers;
7. Statement of buyer's ability to close;
8. Written recommendation from the Asset Manager regarding the proposed sale; and
9. A summary of any trailing liability issues (if any) that NYSTRS would have to consider subsequent to the sale.

Upon approval of the offer by NYSTRS, the Asset Manager will formally accept the offer on behalf of NYSTRS and shall immediately schedule the activity required to satisfy all conditions precedent to closing. In the event that a change in conditions of closing or a buyer's willingness or ability to close would result in a material decline in net disposition proceeds to NYSTRS or a substantial decline in the projected internal rate of return from the levels on which NYSTRS based its approval of the transaction, the transaction shall not close without re-approval by NYSTRS.

The Asset Manager shall be responsible for the transmission of NYSTRS' disposition proceeds via Federal Funds Wire (Fed Wire) directly to the NYSTRS account at a bank designated by the Managing Director of Real Estate.



APPENDIX A

**INDUSTRIAL SEPARATE ACCOUNT
INVESTMENT GUIDELINES AND PROCEDURES**

I. PURPOSE

As part of its real estate program, NYSTRS has developed an industrial investment program that focuses on the acquisition of industrial properties with gross market values between \$3 million and \$50 million. In order to broaden the scope of this program so as to include business parks, office properties are included. The purpose of this Appendix is to describe the investment guidelines for this program.

It should be noted that the approval/closing process for this program is different from other separate account acquisitions covered by this Policy. Although the acquisition of larger-size industrial properties is also permitted under NYSTRS' real estate program, the guidelines in this Appendix only apply to properties valued between \$3 million and \$50 million.

II. INVESTMENT STRATEGY

The investment strategy is to acquire a diversified portfolio of industrial properties offering the following characteristics:

- A. Simple, utilitarian buildings designed for warehouse/distribution or light manufacturing or assembly uses (provided they are suitable for reuse as warehouse/distribution buildings) or uses generally considered to be consistent with a business park, with office finish up to one-hundred percent (100%), and meeting the criteria outlined in this Agreement.
- B. Well located near the primary transportation corridors of their markets.
- C. Between \$3 million and \$50 million in gross market value.
- D. Properties may be in any of the following stages of a property's investment life cycle, as defined in the Policy:
 - 1. Operating
 - 2. Leasing
 - 3. Developmental
 - 4. Re-Developmental
 - 5. Opportunistic



III. PROGRAM OBJECTIVES

The overall objectives of the NYSTRS separate account industrial investment program are as follows:

- A. Attractive initial cash yields.
- B. Growth of income and capital over time.
- C. Downside protection through emphasis on fundamental value.

IV. GEOGRAPHIC DIVERSIFICATION

The portfolio will focus on specified markets that have above-average potential to maintain strong occupancy levels and provide increasing rents over time.

Markets where the ownership, management, or leasing of industrial properties is dominated by a single firm will generally be avoided.

V. BUILDING DESIGN AND ATTRIBUTES

Each property will be selected based on its ability to meet the needs of a broad segment of the tenant universe within its market. While the specific characteristics will vary by market and by the property's intended use, the following criteria **will generally apply** (for properties in a life cycle other than operating or leasing, the characteristics are intended to apply after the improvement project is completed and upon stabilization):

- A. Building Size - 50,000 to 400,000 square feet ("SF"). Where tenants with smaller space requirements are prevalent, up to twenty percent (20%) of the portfolio may be invested in properties designed to attract those tenants (5,000 - 15,000 SF/tenant).
- B. Ceiling Heights - 21 to 32 feet to ceiling joists for buildings designed for larger tenants. 12 to 24 feet for buildings designed for smaller tenants.
- C. Loading - dock-high loading, with at least one loading dock for each 10,000 SF of building area. Buildings designed for smaller tenants may utilize drive-up doors.
- D. Divisibility - larger buildings must be configured to offer the potential to be divided for multi-tenant use.
- E. The Advisor should ensure that the types of goods that are stored in the property can be controlled by the owner of the property.
- F. A maximum of fifty percent (50%) site coverage (0.5 FAR).
- G. Width to depth ratio of approximately 2:1.
- H. Rectangular shape with minimal curves or indentations.
- I. Situated parallel to the street with multiple curb cuts.
- J. Truck courts with a turning radius of 100 feet or more.



- K. Minimum bay sizes 30 x 40 feet.
- L. Fire sprinkler system that meets current codes and market standards.
- M. Minimal office finish (ten percent (10%) or less for large tenants and thirty percent (30%) or less for smaller tenants) in buildings designed for industrial use. No limit for buildings designed primarily for office use.
- N. Parking ratio of one space per one thousand SF of building area.
- O. Truck doors at least 9 feet by 9 feet.
- P. Floor construction of at least 5 inches of reinforced concrete at its thinnest point.
- Q. High durability, low maintenance skin as appropriate to the market (one-hundred percent (100%) metal buildings are not acceptable).
- R. 480/227 3-phase power.
- S. Mechanical and utility systems designed for easy access.
- T. Interior roof drains in cold climates.
- U. Concrete trailer pads.

VI. TRANSACTION REVIEW AND CLOSING PROCESS

NYSTRS will retain discretion regarding acquisition and disposition decisions. The NYSTRS Board has delegated the responsibility for these decisions to its staff for this program.

The Advisor will be responsible for generating investment opportunities that fit the criteria set forth in NYSTRS' approved acquisition criteria. The Advisor will notify NYSTRS in writing of every investment opportunity it is reviewing on NYSTRS' behalf. This notice will include the following information as well as any other information the Advisor deems pertinent:

- A. Property name and address;
- B. Physical description;
- C. Seller;
- D. Major tenants;
- E. Asking price and target acquisition price;
- F. Initial cash yield, cash flow analysis, and 10-year internal rate of return (based on target acquisition price). The returns should be shown on both a before and after fee basis;
- G. Scheduled closing date;



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- H. Estimated replacement cost; and
- I. Market Analysis and Market Rent information.

Unless NYSTRS notifies the Advisor within five (5) business days that it does not want the opportunity pursued on its behalf, the Advisor shall continue to review the opportunity. If the proposed investment meets the criteria set forth in this Appendix and the Advisor's own underwriting standards, the Advisor may proceed to issue a non-binding letter of intent in order to secure the property for further underwriting and due diligence. The Advisor shall provide NYSTRS with a copy of the letter of intent as soon as possible.

Prior to execution of a Purchase and Sale Agreement, the Advisor will prepare and submit to NYSTRS an investment brief containing information in a format specified by NYSTRS. NYSTRS will have fifteen (15) business days from receipt to review the investment brief to ascertain compliance with the terms and investment guidelines and procedures set forth in this Appendix and to notify the Advisor that the investment proposal is acceptable. If NYSTRS fails to respond within said fifteen (15) days, the Advisor shall not proceed with the proposal on NYSTRS' behalf.

If the proposal is accepted by NYSTRS, the Advisor will be primarily responsible for full due diligence and the closing process, including: (1) the scheduling of the closing process in coordination with NYSTRS; (2) establishment of a closing checklist approved by NYSTRS; (3) review and approval of all closing checklist items, including major condition-to-closing items; and (4) the engagement of the outside professional firms required to provide proper due diligence and ensure compliance with all closing checklist items, with the exception of outside counsel and the appraiser, if appropriate (who will be selected and retained by NYSTRS). Prior to the retention of such professional firms, the Advisor will submit a recommendation on each for NYSTRS approval.

NYSTRS will strive to secure independent third-party appraisals for properties acquired under this industrial program prior to closing. Appraisals shall be completed on all properties in the first year of ownership.

After the due diligence review, and upon completion of the generation, review, and approval of the closing checklist items, a final recommendation shall be issued by the Advisor. Such recommendation shall include an attestation as to the sufficiency of all closing checklist items and a verification that there has been no material change, since the initial acceptance of the investment opportunity by NYSTRS, of any physical property, market area, or economic factor which could cause the investment to be of any lower quality than that which has been accepted. This recommendation letter and the investment package (in a format specified by NYSTRS) are to be received by NYSTRS prior to closing.

As soon as practicable after the closing, the Advisor, in conjunction with NYSTRS' outside counsel, will provide NYSTRS with a Closing Binder containing originals of all pertinent documentation, including necessary addenda and attachments to be permanently maintained by NYSTRS. An additional copy of the Closing Binder shall be provided in electronic form, to the extent possible.

Following the closing of a transaction, the Advisor shall be responsible for ensuring that all asset management policies, plans, and procedures for the property are fully functional and are in compliance with NYSTRS' Equity Real Estate Policy.



VII. ENVIRONMENTAL HAZARDS

NYSTRS prefers property investments that comply fully with all applicable statutes regarding environmental hazards. NYSTRS may consider properties that are affected by environmental hazards, but only after a satisfactory, systematic evaluation by qualified professionals. Major pre-investment considerations include the potential risks, liabilities, and costs associated with the presence and management of the environmental hazards. Quantification of the potential liability must be made prior to investment.

VIII. ASSET MANAGEMENT POLICIES AND PROCEDURES

The Asset Management Policies and Procedures as described in Section VI of NYSTRS Policy are applicable to this program.

IX. DISPOSITION POLICIES AND PROCEDURES

The Disposition Policies and Procedures as described in Section VII of NYSTRS Policy are applicable to this program.



APPENDIX B

**APARTMENT SEPARATE ACCOUNT
INVESTMENT GUIDELINES AND PROCEDURES**

I. PURPOSE

As part of its real estate program, NYSTRS has developed an apartment investment program that focuses on the acquisition of apartment properties with gross market values of \$50 million or less. The purpose of this Appendix is to describe the investment guidelines and procedures for this program.

It should be noted that the approval/closing process for this program is different from other separate account acquisitions covered by this Policy. Although the acquisition of larger-size apartment properties is also permitted under NYSTRS' real estate program, the guidelines in this Appendix only apply to properties less than \$50 million in gross market value.

II. INVESTMENT STRATEGY

The investment strategy is to acquire a diversified portfolio of apartment properties which shall be:

- A. In markets with strong demand characteristics and attractive tenant demographics;
- B. Well located in areas characterized as infill locations or within primary residential growth corridors, with proximity to complimentary land uses, and with necessary infrastructures;
- C. \$50 million or less in gross market value; and
- D. Properties meeting the criteria outlined in this Appendix.

The apartment investment program includes existing properties, rehab/redevelopment projects, and development opportunities.

III. PROGRAM OBJECTIVES

The overall objectives of the NYSTRS separate account apartment investment program are to provide:

- A. Attractive initial cash yields for existing properties and attractive risk-adjusted returns for all apartment investments;
- B. Growth of income and capital over time;
- C. Downside protection through emphasis on fundamental value; and
- D. Provide diversification to the portfolio.



IV. GEOGRAPHIC DIVERSIFICATION

The portfolio will be nationally diversified and focus on specified markets which have above average potential to maintain strong occupancy levels and provide increasing rents over time. Target markets will be reviewed on an annual basis by advisors and approved by NYSTRS. Markets where rent control is predominant and may negatively impact the specific properties will generally be avoided.

Advisors will work with NYSTRS to ensure it achieves portfolio-level diversification by geographic region.

V. BUILDING DESIGN AND ATTRIBUTES

Each property will be selected based on its ability to meet the needs of its targeted tenant population. While the specific characteristics may vary by market, the following criteria will generally apply (either at acquisition or at stabilization):

Project Size: 125 to 500 units.

Type: Garden style, high-rise, and mid-rise apartment properties.

Age: Generally built after 1980 for core and after 1970 for value-added investments. The age limit is set in an attempt to avoid properties with asbestos and lead-based paint. Exceptions may be made for older properties with superior construction quality or unique redevelopment opportunities.

Amenities: Properties must possess, or the advisor must be able to add, full amenity packages comparable or superior to competitive properties within the market and appropriate for the target tenant. Areas of comparability include common area facilities, unit size and design, construction quality and materials, and unit amenities.

Construction: High quality construction with wood, brick, stucco, aluminum, or vinyl siding, as appropriate for the market.

Tenancy: Middle or upper income tenants of all ages.

Occupancy: Eighty percent (80%) or greater for existing projects.

Unit Mix: Appropriate for the target tenant and market.

Unit Size: Appropriate for the target tenant and market.

Utilities: All units should be separately metered for gas and electricity.

Security: Properties must meet or exceed local market standards for security and safety.



VI. FINANCIAL CRITERIA

The following financial criteria apply to property acquisitions under this program:

- A. Attractive first-year net (after fees) cash yields and internal rates of return for existing, relatively new, substantially occupied properties with little deferred maintenance. Higher yields will be required for properties with more risks, such as value-added, pre-sale, or developmental properties;
- B. Purchase price which is generally no more than replacement cost for existing properties; and
- C. Acquisition generally on an all-cash basis. However, the prudent use of leverage will be permitted including the assumption of existing debt offering positive leverage and in a joint venture situation where our partner requires it.

NYSTRS' staff will review the financial characteristics for the apartment investment program on a regular basis. As appropriate, the financial criteria may be revised in consideration of existing and projected market conditions.

VII. TRANSACTION REVIEW AND CLOSING PROCEDURES

NYSTRS will retain discretion regarding acquisition and disposition decisions. NYSTRS' Board has delegated the responsibility for these decisions to its staff for this program.

The Advisor will be responsible for generating investment opportunities which fit the criteria set forth in this Appendix. The Advisor will notify NYSTRS in writing of every investment opportunity it is reviewing on NYSTRS' behalf. This notice will include the following information as well as any other information the Advisor deems pertinent:

- A. Property name and address;
- B. Physical description;
- C. Seller;
- D. Asking price and target acquisition price;
- E. Initial cash yield, cash flow analysis, and ten (10) year internal rate of return (based on target acquisition price). The returns should be shown on both a before and after fee basis;
- F. Estimated replacement cost;
- G. Current occupancy; and
- H. Scheduled closing date.

Unless NYSTRS notifies the Advisor within five (5) business days that it does not want the opportunity pursued on its behalf, the Advisor shall continue to review the opportunity. If the proposed investment meets the criteria set forth in this Appendix and the Advisor's own underwriting standards, the Advisor may proceed to issue a non-binding letter of intent in order to secure the property for further underwriting and due diligence. The Advisor shall provide NYSTRS with a copy of the letter of intent as soon as possible.



Prior to execution of a Purchase and Sale Agreement, the Advisor will prepare and submit to NYSTRS an investment brief containing information in a format specified by NYSTRS. Where possible, NYSTRS will have fifteen (15) business days from receipt to review the investment brief to ascertain compliance with the terms and investment guidelines and procedures set forth in this Appendix, and to notify the Advisor that the investment proposal is acceptable. If NYSTRS fails to respond within said fifteen (15) days (or fewer days if agreed to by NYSTRS), the Advisor shall not proceed with the proposal on NYSTRS' behalf.

If the proposal is accepted by NYSTRS, the Advisor will be primarily responsible for full due diligence and the closing process, including: (1) the scheduling of the closing process in coordination with NYSTRS; (2) establishment of a closing checklist approved by NYSTRS; (3) review and approval of all closing checklist items, including major condition-to-closing items; and (4) the engagement of the outside professional firms required to provide proper due diligence and ensure compliance with all closing checklist items, with the exception of outside counsel and the appraiser (who will be selected and retained by NYSTRS). Prior to the retention of such professional firms, the Advisor will submit a recommendation on each for approval by NYSTRS.

NYSTRS will strive to secure independent third-party appraisals for properties acquired under this apartment program prior to closing. Appraisals shall be completed on all properties in the first year of ownership.

After the due diligence review, and upon completion of the generation, review, and approval of the closing checklist items, final recommendation shall be issued by the Advisor. Such recommendation shall include an attestation as to the sufficiency of all closing checklist items and verification there has been no material change, since the initial acceptance of the investment opportunity by NYSTRS, of any physical property, market area, or economic factor which could cause the investment to be of any lower quality than that which has been accepted. This recommendation letter and the investment package (in a format specified by NYSTRS) are to be received by NYSTRS prior to closing.

As soon as practical after the closing, the Advisor, in conjunction with NYSTRS' outside counsel, will provide NYSTRS with a Closing Binder containing originals of all pertinent documentation, including necessary addenda and attachments to be permanently maintained by NYSTRS. An additional copy of the Closing Binder shall be provided in electronic form, to the extent possible.

Following the closing of a transaction, the Advisor shall be responsible for ensuring that all asset management policies, plans, and procedures for the property are fully functional and are in compliance with NYSTRS' Equity Real Estate Policy.

VIII. ENVIRONMENTAL HAZARDS

NYSTRS prefers property investments which comply fully with all applicable statutes regarding environmental hazards. NYSTRS may consider properties that are affected by environmental hazards, but only after a satisfactory, systematic evaluation by qualified professionals. Major pre-investment considerations include the potential risks, liabilities, and costs associated with the presence and management of the environmental hazards. Quantification of the potential liability must be made prior to investment.



IX. ASSET MANAGEMENT POLICIES AND PROCEDURES

The Asset Management Policies and Procedures as described in Section VI of NYSTRS' Equity Real Estate Policy are applicable to this program.

X. DISPOSITION POLICIES AND PROCEDURES

The Disposition Policies and Procedures as described in Section VII of NYSTRS' Equity Real Estate Policy are applicable to this program.



APPENDIX C

**REAL ESTATE INVESTMENT TRUSTS (“REITS”)
INVESTMENT GUIDELINES AND PROCEDURES**

NYSTRS may invest in public real estate securities through: (1) a broadly diversified actively managed account; or (2) more concentrated positions in single securities. Concentrated positions may be acquired for tactical or strategic reasons, through direct purchases or private placements, through conversion of private assets to interests in public companies, or through in-kind distributions from fund investments. Managers will be retained to manage broadly diversified accounts within agreed upon guidelines. Concentrated positions in a single security may be acquired and/or managed through a manager or directly by NYSTRS.

Both domestic and global public real estate securities managers will be evaluated relative to their stated benchmarks (generally FTSE EPRA/NAREIT Global Real Estate Total Return Index Ex-US [global index] or Wilshire US REIT Index, FTSE EPRA/NAREIT US Real Estate Index, Merrill Lynch REIT Preferred Equal-Weighted Index, and Merrill Lynch REIT Preferred Securities Index (7% Constrained) [domestic indices]) and the performance of NYSTRS’ other public real estate securities managers.

For concentrated positions in a single security, staff will monitor whether the security is held in NYSTRS’ diversified portfolios and regularly solicit input from NYSTRS’ public real estate securities managers on their buy/hold/sell rankings. Based on this input, staff will make a determination as to whether the security should continue to be held or should be liquidated at a target price.



Equity Real Estate Investments

Responsibilities & Controls

Responsible Party	Action
<u>PROGRAM FUNDING:</u>	
Investment Information Department	1. Prepare a 12 month cash flow forecast for the Internal Investment Committee on a monthly basis. This forecast brings together cash available to invest with planned program investments and targeted asset allocations while contemplating the benefit payment and operational cash needs of the System. By focusing on significant sources or uses of cash the Internal Investment Committee assures coordination of investment strategies, funding of annuitant benefits and adherence to asset allocation targets.
Real Estate Department	2. Oversee qualitative aspects of the program such as strategy and process. (See Selection, Monitoring, and Terminations of External Investment Managers for Publicly Traded Securities policy.) 3. Work with the Legal Department in negotiating any legal documentation and drafting required terms. Other parties may be called upon for assistance in this process including outside counsel, Finance, and other departments as needed.
Real Estate and Legal Departments	4. Work with outside counsel, if retained, in negotiating the final form of any contract which may be required.
Investment Information Dept and Custodian Bank	5. Work with Real Estate Department and external investment managers to open accounts in all foreign markets in which custodian, or its sub-custodians(s), operate. Will provide all required account opening documents and manage the process (global).
<u>INVESTMENT PROCESS:</u>	
External Investment Managers	6. In compliance with System policies and investment contract, and using full fiduciary investment discretion, execute trades with brokers, and report trades to the Investment Information Department (domestic) or custodian bank (global).
Managing Director of Real Estate or designees	7. Recommend investments within guidelines. This process is opportunity-driven rather than asset-allocation driven. It involves a thorough analysis, can be time consuming, and may require expertise beyond in-house capabilities. For these reasons, a consultant(s) may be hired to assist in the process. 8. Maintain ongoing relationship with external investment managers



Equity Real Estate Investments

	<p>and act as liaison between external equity managers and the System.</p> <p>9. Maintain reports and correspondence files.</p> <p>10. Instruct Investment Information Department to disburse funds to investment manager.</p>
Custodian Bank	<p>11. Work directly with external investment managers in the receipt and processing of trade instructions, booking (affirming) of trades, and follow-through to good settlement (global).</p>
Investment Information Department	<p>12. Communicate trade information to Depository Trust Company (DTC) or custodian bank. (domestic)</p> <p>13. Prepare warrants and submit to Internal Audit.</p> <p>14. Perform all investment related accounting and reporting, applying appropriate accounting controls (domestic).</p>
Internal Audit	<p>15. Pre-audit warrants and submit to Executive.</p>
Executive	<p>16. Approve warrants to disburse funds.</p>
Finance Department	<p>17. Receive signed warrant from Executive and forward to NYS Treasurer.</p>
NYS Treasurer	<p>18. Record payment.</p>
Finance Department	<p>19. Post warrant to General Ledger and retain executed copy.</p>
<p><u>MONITORING:</u></p> <p>Investment Information Department</p>	<p><u>Global and Domestic:</u></p> <p>20. Determine that portfolio holdings comply with statutory limitations.</p> <p>21. Maintain reports, reconciliations, and related correspondence.</p> <p><u>Global:</u></p> <p>22. Prepare monthly journal entries to record portfolio activity as reported to the System by custodian bank.</p> <p>23. Prepare monthly schedules to report net asset value of portfolios as reported to the System by custodian bank. Reports buy and sell transactions to the Board monthly.</p> <p>24. Monitor custodian bank and external investment manager's</p>



Equity Real Estate Investments

	<p>reconciliations of net asset value monthly and their resolution of variances.</p> <p><u>Domestic:</u></p> <p>25. Verify trades have been settled correctly and resolve any discrepancies.</p> <p>26. Independently determine the market value of portfolio holdings.</p> <p>27. Reconcile System holdings to custodial position monthly. Reconcile shares and market values per external managers' reports to System records monthly.</p> <p>28. Provide copy of this reconciliation to NYS Treasurer.</p>
Custodian Bank	<p><u>Global and Domestic:</u></p> <p>29. Maintain records and provide monthly reports on individual portfolios and/or composite basis.</p> <p><u>Global (as Master Trust Custodian):</u></p> <p>30. Settles trades and pay or receive funds in accordance with the customary or established securities trading or securities processing practices and procedures in the jurisdiction or market in which the trade occurs.</p> <p>31. Maintain responsibility for determining market value of portfolios.</p> <p>32. Work directly with external investment managers to identify and process corporate actions affecting global portfolio holdings.</p> <p>33. Seek collection of any reclaimable foreign taxes withheld on System holdings, provide the System with monthly reports on outstanding receivables.</p> <p>34. Coordinate and process all class action filings.</p> <p>35. Coordinate with external managers to complete monthly reconciliation of portfolio net asset value.</p> <p>36. Calculate and report performance by portfolio and in aggregate using agreed upon formula and benchmark.</p>
Real Estate Department	<p>37. Monitor the performance of the public real estate security portfolios vs. investment managers with similar mandates and the stated benchmarks.</p> <p>38. For global accounts, access the Custodian's website to review performance and the underlying securities held by the managers.</p> <p>39. Ensure that the Investment Guidelines as outlined in the Investment Management Agreements are adhered to.</p>



Equity Real Estate Investments

Retirement Board	40. Review performance of investments quarterly.
<u>EXITING:</u> Real Estate Department	41. May decide (with the possible assistance of a consultant) to exit an investment sooner than the contractually agreed upon date, should performance and other considerations merit termination.
Legal Department	42. Assist staff and render legal advice regarding any developments occurring during the life of the investment.



NEW YORK STATE TEACHERS' RETIREMENT SYSTEM
INVESTMENT POLICY MANUAL

Real Estate Department General Authorization

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I. Introduction

The General Authorization for the operation of the Real Estate Department is set forth herein. This document identifies the types of activities performed by the Real Estate Department which need Board approval and those which have been delegated to the Executive Director/CIO or the Managing Director of Real Estate or their designees.

II. Real Estate Transactions Requiring Board Approval And Execution Of Documents Related Thereto:

Upon unanimous approval of the Investment Committee of the Retirement Board or a majority of the Retirement Board, or upon approval by the Executive Director/CIO under authority delegated by resolution of the Retirement Board, either the Executive Director/CIO or, alternatively, any one of the following officers: the Actuary, General Counsel, Managing Director of Operations, Director of Member Relations, Associate General Counsel, and any one or more Assistant General Counsels designated by the Executive Director/CIO in writing (hereinafter Group A), together with any one of the following officers: Managing Director of Real Estate, Manager of Real Estate and Assistant Managers of Real Estate (hereinafter Group B), may take the following actions on behalf of the System, including the execution of any and all documents related to:

A. Commitments for Mortgage Loans

Commitments for mortgage loans, including new and/or increased loans and mortgage co-lending programs, and the acquisition, sale, or other disposition (not otherwise authorized under the Real Estate Department General Authorization) of real estate fixed income investments, whether direct, indirect, or through commingled funds, limited partnerships, or other investment entities established primarily for the purpose of investing in real estate fixed income investments.

B. Commitments for The Sale Of Mortgage Loans At A Discount

Commitments for the sale, assignment, or disposition of mortgage loans where the consideration received by the System is less than the outstanding principal balance and interest due to the System under the terms of the loan and a comparable or higher quality investment providing an equal or higher yield is not available to the System.

C. Commitments for Real Estate Equity Purchases And Sales

Commitments for the acquisition, sale, or other disposition of equity real estate investments, whether direct, indirect, in real estate holding corporations, or through limited partnerships, commingled funds, or other investment entities established primarily for the purpose of investing in equity real estate or real estate related equity securities.

D. Commitments for Capital Improvements

Commitments for the cost of a single program of real estate capital improvements or leasing costs for real estate owned by the System (other than for real estate over which an outside investment manager has full discretion, as in the case of a commingled fund) where such capital improvement costs exceed five percent (5%) of, or such leasing costs exceed five percent (5%) per annum of, the gross market value of the property (excluding any debt) and such costs cannot be funded out of the property's cash flow. Market value to be based upon



the most recent third party appraisal or, in the absence of such appraisal, total investment cost.

III. Actions Which May Be Taken By Either The Executive Director/CIO Or The Managing Director of Real Estate Or Their Designees And Execution Of Documents Related Thereto:

The Executive Director/CIO, the Managing Director of Real Estate and their designees, such designees to be determined under guidelines established by the Managing Director of Real Estate and approved by the Executive Director/CIO, which designees may include all officers in Groups A and B, are hereby authorized to take the following actions on behalf of the System, including the execution of any and all documents related thereto:

A. Term of Commitments Or Authorizations

To permit the time for the consummation of mortgage loan authorizations and commitments to be extended to a date not more than twelve (12) months following the date of the authorization or the date stipulated in the commitment letter (whichever is later). There may be any number of extensions for any period of time as long as the total period of extension does not exceed twelve (12) months.

B. Releases, Consents, and Subordinations

In regard to mortgage loans and the property securing those loans with or without consideration:

1. Consent to the owner's sale or transfer (including mortgages where there is a due on sale provision) of such property or any interest therein, subject to the System's lien;
2. Release the original or any succeeding obligor or guarantor of any loan from obligation on the loan if such obligation is assumed by a new owner of the property;
3. Consent to a modification of or approve all leases on property on which the System holds a mortgage;
4. Consent to the substitution of one lessee for another provided the substitute lessee has the ability to pay the rent and satisfy the other obligations of the lease;
5. subordinate (whether by subordination, recognition, or other instrument) liens to, and consent to the grant by the owner of the project subject thereto of: easements, permits, licenses, and rights of way for utilities, pipelines, mains, sewers, drainage and irrigation projects, boundary line agreements, projections, or encroachments of walls; easements and rights of way in driveways, alleys, streets, and highways, for either public or private purposes; and leases or subleases of all or part of the property; and, in connection with any of the foregoing to require or abstain from requiring the consideration, if any, received by the owner shall be applied to the prepayment of the loan;
6. Consent to the removal and sale of sand, stone, earth, gravel, timber or other natural resources from property subject to a lien of the System provided the amount so removed shall not materially reduce the value of the security for the loan; and
7. Release a part of the security from the System's lien, or to consent to the demolition, removal, or sale of improvements including salvage, provided such release or consent



shall not materially reduce the value of the security (taking into consideration proceeds received in reduction of the mortgage principal, if any). In the case of government insured loans, no such release or consent shall be given which would end the government insurance or guaranty.

C. Postponement of Payments, Modifications And Foreclosure

With respect to any mortgage loan:

1. Postpone (defer) (i) the date or dates for one or more payments of or on account of interest for not more than an aggregate of eighteen (18) months, (ii) the date or dates for one or more payments of or on account of principal for not more than an aggregate of thirty-six (36) months, and to final maturity the payment of amounts due or to become due on account of principal over a period of not more than three (3) years and/or extend the maturity of the loan for a period not to exceed thirty-six (36) months;
2. Upon the occurrence of any default, to institute foreclosure proceedings or to refrain from accelerating the unpaid loan balance and to defer foreclosure proceedings for not more than an aggregate of eighteen (18) months following the occurrence of such default unless adequate additional security is furnished the System and not in any event beyond the date when any mortgaged leasehold may be terminated by reason of such default or when any taxing authority may sell the mortgaged property by reason of any unpaid tax, assessment, or other imposition; and
3. Exercise any option to accelerate its maturity under a call or other provision contained therein, whether because of the passage of time, transfer, or encumbrance of the security, default, or other reason.

D. Prepayments and Assignments

Permit prepayment of mortgage loans, in whole and in part, with or without charge, and to waive provisions requiring notice of intent to prepay and the payment of charges expressly required as a condition to such prepayment; provided in cases where prepayment of mortgage loans, in whole or in part, is subject to the discretion of the System, a comparable or higher quality investment providing an equal or higher yield is available to the System:

Effect assignments, satisfactions, discharges, or releases of liens upon receipt of the entire principal and interest owing to the System.

E. Waiver, Modification, and Amendment Of Covenants

Provided the value of the security for the loan is not materially reduced to waive, modify, and amend covenants and other terms of mortgage loans (including the terms of leases and any other documents relating to or constituting security, and to consent to modifications, amendments and terminations thereof by others), and to change payment due dates and frequency thereof or waive any default in the observance of performance thereof; but in no event shall a reduction in the rate of interest payable on a loan be made hereunder, except (i) interest in excess of the regular contract rate which may be payable following a default and (ii) in the case of government insured loans, when necessary to reflect market conditions in order to retain such investments in the System's mortgage portfolio.

F. Government Insured Loans



1. In the case of government insured loans, to assign to the appropriate governmental agency or instrumentality or an officer thereof the note and mortgage in exchange for the consideration provided for in the government program, insurance, or guaranty;
2. To bid on, commit for, or otherwise acquire whole loans or partial interest in pools or packages of government insured loans; and
3. To amend the interest rate to reflect current market conditions when necessary in order to keep government insured investments in the System's mortgage portfolio.

G. Return of Fees and Deposits

Effect the repayment in whole or in part of commitment and standby fees and application and good faith deposits received by the System in connection with applications for or commitments relating to mortgage loans or the purchase or sale of real estate equities.

H. Servicing Mortgage Loans

1. With respect to any loan in which the System holds or may hold a participation, to enter into agreements with other participant(s) under which the System and/or any other participant(s) services such loans whether or not compensated therefore and to modify and terminate such agreements; and
2. Enter into agreements under which others service loans held by the System and to modify, terminate, and consent to the assignment of such agreements.

I. Trustee's Action

With respect to any loan the security for which is held in whole or in part by a trustee, including a real estate bond issue, to take, or authorize the trustee's taking, any action which could otherwise be taken by the Executive Director/CIO or Managing Director of Real Estate, if the security for the loan were held directly by the System.

J. Acquisition of Properties

Prior to the purchase of property previously authorized by the unanimous vote of the Investment Committee of the Retirement Board or by the Retirement Board, to increase by not more than five percent (5%) the purchase price to be paid for the property, provided an appraisal or feasibility report shall be obtained which shows the value of the property is at least equal to the increased purchase price. A report of each action taken under this paragraph shall be made to the Investment Committee of the Retirement Board or the Retirement Board.

K. Management and Operation Of Properties

Manage and operate, either directly or through a management agent (including asset managers), receivers and/or trustees, court, or otherwise appointed or independent contractor, owned properties and interests therein, including for the purpose of this and other paragraphs of this section properties and interests acquired or about to be acquired by or in lieu of foreclosure, or held subject to redemption after foreclosure, such management and operation to include, without limiting the scope hereof, authority to:

1. Make, modify, and terminate leases and subleases, and consent to assignments and subleases by others, covering all or part of such property (and in connection with new



leases, to assume and adjust the new lessee's lease obligations at its former location), provided the expenditures, if any, incurred in connection therewith may not exceed the limitations on expenditures which may be incurred without Investment Committee of the Retirement Board or Retirement Board approval as set forth in Subdivision D of Section II above;

2. Charge off or cancel all or part of accruals of rent or accruals of claims for use and occupancy deemed to be uncollectible or deemed not to justify the estimated cost of probable recovery;
3. Effect repairs, whether for extraordinary damage or ordinary maintenance and whether or not the obligation of the System (thus covering foreclosures and receiverships), provided the expenditures, if any incurred in connection therewith may not exceed the limitations on expenditures which may be incurred without Investment Committee of the Retirement Board or Retirement Board approval as set forth in Subdivision D of Section II;
4. Change the use or function of such properties or the structures located thereon, effect improvements, additions and replacements, add additional structures, purchase or rent equipment or furnishings, demolish and dispose of structures, chattels and salvage no longer used or deemed useful, and purchase additional adjacent land in implementation of any of the foregoing, provided the expenditures, if any incurred in connection therewith may not exceed the limitations on expenditures which may be incurred without Investment Committee of the Retirement Board or Retirement Board approval as set forth in Subdivision D of Section II above;
5. Sell or dispose of surplus miscellaneous material, furnishings, and equipment;
6. Purchase fuel and supplies, materials for repairs, maintenance, fencing, construction, and surfacing; and, water, electric and sewer lines, heating, refrigerating, incinerating, elevator and escalator, and/or other building service equipment;
7. Recognize subleases notwithstanding the termination of a paramount lease covering all or part of such a property or interest therein;
8. Designate, use, and invest in appropriate accounts as repositories for funds held by managing agents, asset managers, etc. pending their distribution to the System or their use for payment of operating expenses, and the drawing of checks, drafts, or orders thereon; and
9. Leverage properties with a prudent amount of mortgage financing (not to exceed seventy-five percent (75%) of appraised value) to take advantage of positive leverage; and re-finance existing mortgage loans to take advantage of favorable interest rate environments or to deal with impending maturities.

L. Sale of Properties

Prior to completion of the sale of a property previously authorized by the unanimous vote of the Investment Committee of the Retirement Board or by the Retirement Board to decrease by not more than five percent (5%) the sales price of all or any part of any property owned by the System, regardless of any other terms of such sale provided an appraisal or feasibility report shall be obtained which shows the value of the property is not more than the decreased sale price. A report of each action taken under this paragraph shall be made to the Investment Committee of the Retirement Board or the Retirement Board.



M. Joint Ventures

Enter into partnership, joint venture, or like arrangements, to carry out projects authorized hereunder or otherwise authorized by the unanimous vote of the Investment Committee of the Retirement Board or by the Retirement Board with authority to act with respect to partnership, joint venture, or like arrangement properties to the same extent as herein authorized for the System-owned properties and in addition to exercise the following authority with respect to partnership, joint venture, or like arrangement projects:

1. Execute such other agreements or instruments deemed necessary or desirable to carry out the purposes of the project, and to consent to the taking of action by the partnership, joint venture, or like arrangements pursuant to any such agreements or instruments; and
2. Provide for, or to establish procedures to provide for, the control of the business and affairs of the partnership, joint venture, or like arrangements within the scope approved by the Investment Committee of the Retirement Board or the Retirement Board.

N. Term of Authorizations

Permit the time for the consummation of property acquisitions and sales including commingled real estate funds to be extended to a date not more than twelve (12) months following the date of authorization or the date stipulated in the sale or acquisition contract (whichever is later). There may be any number of extensions for any period of time as long as the total period of extension does not exceed twelve (12) months.

O. Consultants, Insurance, Expenditures, and Miscellaneous Actions

Pursuant to guidelines established by the System with respect to any transaction being conducted by the Real Estate Department, including but not limited to the acquisition, sale, or ownership of any real estate equity, commingled real estate fund, or mortgage loan:

1. Employ or obtain the services of consultants, including but not limited to, architects, appraisers, environmental specialists, engineers, attorneys, agents and brokers, landscape architects, and other property specialists and effect payment therefore;
2. Obtain documentation and reports, including but not limited to, tax, title, environmental, engineering, architectural, legal, appraisal, and land use and effect payment therefore;
3. Determine and obtain appropriate amounts, types, and sources of insurance and determine, subject only to limitations of law and the documentation, the disposition of any proceeds of fire, extended coverage, or other hazard insurance;
4. Pay or prepay any tax, rent (including land rent), insurance, repair, mechanic's lien, maintenance charge, advance to a receiver, assessment, water and/or sewer charge, utility charge (electric, gas, telephone, etc.), sums necessary to cure lease defaults, or any other charge or expense deemed necessary for the protection of or in furtherance of the System's interests and to commence actions relating thereto;
5. Obtain services and materials and make expenditures for repairs deemed necessary for the protection of or in furtherance of the System's interests;
6. Enter into contracts necessary for the operation of the property including, but not limited to, elevators, HVAC, security, water treatment, rubbish removal, pest control, landscaping, etc. and to effect payment therefore; and



7. Consent to zoning and redevelopment plans, irrigation projects, ordinances, and condominium documents, grant easements, rights of way, and other rights affecting such properties, enter into agreements with adjoining owners covering encroachments, party walls, boundary lines, and similar matters, provide for the cutting and/or sale of standing timber and the removal and/or sale of stone, earth, and gravel, and enter into agreements and leases with respect to mineral and oil exploration and production.

P. Commingled Funds, Limited Partnerships and Other Investment Entities

Invest in limited partnerships, joint ventures, and other investment entities, as authorized hereunder or otherwise authorized by the unanimous vote of the Investment Committee of the Retirement Board or by the Retirement Board and to exercise the following authority with respect to such partnerships, joint ventures and other investment entities:

1. Execute such agreements, documents, and instruments as may be necessary or desirable to implement the System's participation in the commingled fund, limited partnership, or other investment entity or to carry out the purposes or objectives of such fund, partnership or entity.
2. Take such actions as may be necessary or appropriate to implement or further the System's oversight of such investments.
3. Take such actions as may be necessary or appropriate to protect or preserve the System's investment in extraordinary circumstances, including the incurring of necessary or appropriate expenditures without Investment Committee of the Retirement Board or Retirement Board approval, provided such expenditures may not exceed an amount equal to five percent (5%) of the amount authorized by the Investment Committee of the Retirement Board or the Retirement Board for investment in the project.

Q. Documents

The list of documents enumerated below is not intended to be all-inclusive, but illustrative of those which must be executed to operate in both the mortgage and real estate equity programs of the System. Except as otherwise specifically provided above, the Executive Director/CIO and Managing Director of Real Estate and/or their designees, who may include all the officers in Group A and Group B, are given authority to execute these documents and all others necessary to effectively administer the mortgage and real estate equity programs.

Acknowledgments

Affidavits

- In Support of Summary Judgments
- Pertaining to Appointment of Receivers
- Referee's Hearings and Related Instruments
- Verifying Information in Complaints
- Other

Affirmations

Agreements

- Assumption
- Attornment
- Bid
- Brokerage
- Buy-Sell
- Commission



- Commitment Fee
- Completion
- Condemnation and Appropriation
- Encroachment
- Escrow
- Good Faith Deposit
- Guaranty
- Indemnity
- Joint Venture and Related
- Lease Buy-Out
- Management
- Non-Disturbance
- Partnership and Related
- Performance Guaranty
- Sale Leaseback
- Security and Security Assignment
- Servicing
- Spreading
- Subordination
- Termination Tri-Party
- Other
- Allonges
- Appointments
 - Trustees and Substitute Trustees
 - Other
- Assignments
 - Agreements
 - Bonds
 - Income, Rents, Leases, and Collateral
 - Assignments thereof
 - Mortgages and Chattel Mortgages
 - Notes
 - Profits
 - Other
- Bills of Sale
- Binders
- Bonds
- Budgets
- Cancellations
- Chattel Mortgages
- Checks, Drafts, and Negotiable Instruments
- Commitments
- Consents
- Consolidations
- Contracts (see also Agreements)
 - Construction
 - Purchase
 - Sales
 - Service
 - Management
 - Operating
 - Other
- Deeds
 - Bargain and Sale
 - In Lieu of Foreclosure
 - Of Trust



Quit Claim
Warranty
Other
Deficiency Judgments
Discharges
Easements
Estoppels
Extensions
Eviction Notices
Financial Statements
Financial Documents
Incorporation Documents and Related Instruments
(including Directors' and Other Resolutions)
Injunctions
Interrogatories
Leases (including land)
Lease Modifications
Letters of Intent
Lis Pendens
Loss Drafts
Mechanic's Liens
Memorandums of Sale
Modifications
Mortgages
Notes
Notice and Demand Letters
Notices
Options
Plans and Specifications
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Reconveyances
Releases
Satisfactions
Stipulations
Subleases
Tax Appeals (Certiorari)
Tax Settlement and Refund Documents
Treasury Authorizations
Warrants
Work Orders/Tenant Improvements, Building Improvements, or Repairs



NEW YORK STATE TEACHERS' RETIREMENT SYSTEM
INVESTMENT POLICY MANUAL

Timberland Investments

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Timberland Investments

I. Introduction

Timberland is classified within the alternative investment asset class. Acceptable investment properties should include good quality, professionally managed timber that is in close proximity to established timber infrastructure and is of a sufficient size to allow efficient harvesting techniques and operation. Timberland investments may include properties in various stages of the timber production life cycle.

II. Portfolio Guidelines

- A. *Objective.* The objective of the portfolio will be timber production for maximum long term return, with current cash flow as a secondary objective.
- B. *Rate of Return.* The portfolio will consist of properties that as a group are expected to yield a rate of return of five percent (5%) or more above inflation over the long term.
- C. *Geographic Area.* Investments will be made principally in the Continental United States and Alaska. Investments in Hawaii and in foreign countries must be specifically approved by NYSTRS.
- D. *Geographic Diversification.* The portfolio will be diversified among regional timber markets within the defined geographic area.
- E. *Age Diversification.* The portfolio will be diversified by timber age.
- F. *Leverage.* Leverage will not be used in the portfolio except with prior written approval by NYSTRS following consideration with the Advisor of any unrelated business taxable income (as defined in Section 512 of the IRS Code) issues.
- G. *Participation Limitation.* Investments will not be made with any type of financial or operational partner except with prior written approval by NYSTRS following consideration between NYSTRS and the Advisor of any tax or other legal impact of such participation.

III. Property Guidelines

- A. *Minimum Investment Size.* The minimum investment (purchase price) per property will be \$1 million, except that smaller investments may be made in properties which adjoin or are in the vicinity of existing Portfolio Property.
- B. *Maximum Investment Size.* The maximum investment (purchase price) per property will be twenty-five percent (25%) of the current fair market value of the portfolio including uninvested allocations.
- C. *Acquisition/Sale Limitation.* All acquisitions and sales of property will be made from or to entities or persons who are not affiliated with the Advisor.
- D. *Quality.* Acquisitions will be high quality timberland properties that are generally characterized by:



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1. Site index (productivity rating) in the high 70s or greater on a fifty (50) year basis (Site index 80 on a fifty (50) year basis means that trees on that site generally will grow to a height of 80 feet in fifty (50) years).
2. Strong timber markets with multiple wood-using plants within timber hauling distance.
3. Legal access to public roads.

IV. Real Estate Transaction Review and Closing Process

A. Definitions

The term "Investment Source" means any entity which submits a real estate investment to NYSTRS. The Investment Source will typically be one of NYSTRS' contractual Advisors. In this section "Investment Source" and "Advisor" are used interchangeably.

B. Specified Property Investments

1. Registration Process

Investments will come primarily from NYSTRS' contractual Advisors. All valid written potential transactions submitted to NYSTRS will be entered into an Activity Log (Log) which will be maintained in NYSTRS' office. No verbal proposal will be entered into the Log.

In order to register a potential transaction, Advisors must prepare information on the proposed transaction in a format acceptable to NYSTRS. This information must include the property name, location, and size. Additional information may be provided to NYSTRS at the Advisor's discretion. The registration notice should be accompanied by another copy which will be returned to the Advisor with a line for NYSTRS to acknowledge receipt of the notice.

2. Preliminary and Pre-Closing Procedures

Within thirty (30) days after Registration, the Advisor must provide Preliminary Information on the proposed transaction. This information should include property name, location, size, timber type, age range, estimated purchase price, estimated closing date, seller, estimated returns, and any other pertinent information available at the time. At monthly intervals, following the registration of a proposed transaction, the Advisor will provide NYSTRS with a written update, identifying each transaction that the Advisor is pursuing and a brief statement as to its status. NYSTRS reserves the right, at its sole discretion, to cancel a registration at any time up to the point the Advisor presents a Letter of Intent or Purchase Agreement executed by the seller and, in summary form, its analysis supporting the terms embodied in the Letter of Intent or Purchase Agreement.

Upon completion of its review of the investment, the Advisor should provide NYSTRS with certain Pre-Closing Information. This Pre-Closing Information should include the full Environmental Site Assessment, the Original Appraisal, a Summary of the Timber Cruise, a Budget with updated return estimates, a Copy of the Purchase & Sale Agreement, and a Closing Checklist. The Closing Checklist shall indicate responsible parties for approving each checklist item (Advisor, legal counsel, etc.). Attached to this Closing Checklist will be a budget for all cost items



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to be incurred during the closing process with specification as to who is to incur each cost.

The Pre-Closing Information should be submitted by the Advisor to NYSTRS at least fourteen (14) days prior to closing. It should be accompanied by a cover letter from the Advisor confirming the investment opportunity is still available on the original terms specified.

3. Environmental Hazard Review

NYSTRS gives first priority to investments in properties which comply fully with all local, state, and federal government regulations, including, but not limited to, the Federal Water Pollution Control Act and the Endangered Species Act, regarding environmental hazards. NYSTRS may consider properties that are affected by environmental hazards, but only after a satisfactory, systematic evaluation by qualified professionals. Major pre-investment considerations include the potential risks, liabilities, and costs associated with the presence and management of the environmental hazards. Quantification of the potential liability must be made prior to investment.

Of primary importance to the proper assessment and management of environmental risks is a documented, detailed level of inquiry during the investment analysis process to detect any potential hazard (including those from hazardous waste, toxic waste, radon, asbestos, or unknown origin). If, in the opinion of the Advisor, there is a possibility of the presence of a hazard or potential hazard, a thorough analysis of the situation should be conducted as follows:

- Assessment of all applicable environmental statutes;
- A physical inspection and engineering analysis of the property and its site to determine if any environmental hazards are present;
- A survey of the property and adjacent properties and sites to identify any materials or wastes which may be present as surface or subsurface contamination, including sources of potential contamination; and
- A review of property lease agreements, if any, to ascertain the actual or potential use of environmental hazards by tenants, and tenant and landlord responsibilities regarding same.

The outcome of studies conducted during the investment analysis stage is intended to enable NYSTRS to quantify the extent of environmental hazard liabilities of a prospective property investment and to identify alternative means for addressing such liabilities. If any environmental hazards are found, such quantification by NYSTRS includes:

- The establishment of an operation and management program for controlling or abating any environmental hazard;
- Negotiation of a purchase or investment agreement to account for the costs involved for the operation and management program and/or to provide for recourse against the seller (or borrower) for any present or future environmental hazard liabilities; and
- Where appropriate, the review and re-negotiation of lease agreements,



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including indemnification clauses, to transfer the responsibility and liability for the disposal or treatment of hazardous substances to a property's tenants.

The intent of the foregoing requirements of this Policy is to enable NYSTRS to understand and control environmental hazard liabilities associated with real estate investments and to allow NYSTRS the ability to consider investment in properties so affected.

4. Approval Process

The Advisor will have authority on a discretionary basis to invest and reinvest NYSTRS funds in timberland and timberland related assets.

5. Closing Process

The Advisor will schedule the closing process and comply with all Closing Checklist items. The Advisor shall hire outside professionals (civil engineers, foresters, appraisers, etc.) necessary to provide proper due diligence on behalf of NYSTRS for each property transaction. Outside professionals will be selected by means of a bid process, inviting at least three (3) bids for each job from a list of approved, qualified vendors provided by NYSTRS to the Advisor. Absent unique circumstances, the job is to be awarded to the lowest qualified bidder.

The Advisor shall request that NYSTRS' General Counsel select the outside counsel who will typically be required to review and/or prepare as necessary the investment contracts and any other pertinent documents related to the transaction for compliance with state statutes and other matters related to the transaction.

At the time the Closing Checklist is prepared, the Advisor will specify an anticipated closing date. On this date, the funding requirements and the amount of funds required at closing will be specified so that the appropriate funds may be set aside for the acquisition and bank accounts can be opened. A time and place of closing will also be specified.

Upon completion of the generation and review of all closing checklist items, and at least five (5) business days prior to closing, the Advisor shall send a letter to NYSTRS stating the following:

- All conditions for closing have been met (or list all outstanding items and their status); and
- To the best of the Advisor's knowledge, there have been no changes since the time of Advisor's Investment Committee approval of any physical property, market area or economic factors that would cause the investment to be of lower quality than that which was approved.

As soon as practical, but no later than sixty (60) days after the closing, the Advisor will provide NYSTRS with a Closing Binder. The Closing Binder will hold all pertinent original documentation pertaining to the property including, but not limited to, location, size, Purchase & Sale Agreement, Assignment from the Advisor to Client (if applicable), Closing Statement, Deeds, Owners Affidavit, and Title Insurance Policy.

NYSTRS will typically retain all original documents; however, based on agreements made during the closing process, NYSTRS may accept certified copies of certain documents in lieu of originals. In this event, NYSTRS must



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approve the location of original documents and the holder of the original documents shall be required to obtain written approval from NYSTRS before moving these documents.

Immediately after closing, the Advisor must prepare and submit to NYSTRS a reconciliation detailing the specific use of all amounts funded by NYSTRS. Any excess funds should be returned to NYSTRS immediately and the reconciliation must explain the intended use of any funds which were not returned.

V. Asset Management Policies and Procedures

A. Introduction

Asset management of timberland assets is designed to add value to the investment by enhancing the overall quality of the assets. This includes the application of state-of-the-art silvicultural systems, harvest schedule optimization, and realization of economies of scale in forest operations. A wide range of forest management techniques are incorporated on each property to ensure responsible land stewardship, sustainable land productivity, and protection from natural hazards. These techniques, including planting genetically improved seedlings, controlling competing vegetation, alleviating forest nutrient deficiencies, enhancing timber quality and growth through thinning, and controlling natural hazards like fire and insects, optimize timberland investment value by providing long-term returns and portfolio stability.

The term “asset management” as it pertains to NYSTRS' real estate investment program encompasses all activities relating to the operations of the real estate investments in commingled funds and specified properties owned by NYSTRS and the timely and accurate reporting of the results of those operations.

The term “Asset Manager” shall mean any member of the Advisor’s staff who performs asset management.

B. Responsibilities

Asset Managers shall:

1. Provide and recommend the adoption of annual operating and capital budgets for property assets;
2. Execute property level contracts with service providers;
3. Select special project professionals such as engineers, appraisers, and property managers;
4. Assure proper insurance coverage, when economically appropriate;
5. Ensure that all property level taxes and assessments are paid on a timely basis;
6. Approve and execute contracts for capital improvements on any property;
7. Approve and execute leases that are consistent with the leasing guidelines contained in the property management plan;
8. Undertake property disposition strategies and opportunities for properties under their management;



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9. Provide property level operational and economic information as required by NYSTRS to facilitate appraisal, audit, and reporting practices;
10. Protect and defend NYSTRS' interests in any property as may be warranted by any event of an emergency or extenuating nature; and
11. Attend partnership meetings and/or represent NYSTRS at all meetings relating to the asset management policies and procedures for the assets under their management, unless otherwise specified by NYSTRS.

With respect to all real property assets either owned outright, owned as an interest therein, or as a security interest therein such as a deed of trust or mortgage, NYSTRS shall either have final authority for or in the case of co-investments, the investment instruments shall provide parameters controlling: (1) the financing or refinancing of all or any fractional ownership interest and (2) substantive changes to ownership or security interests. Notwithstanding the above, the Advisor retains full discretion to sell all or part of all timberland assets.

Due to the special nature of timberland, the asset manager will also act as property manager and therefore be required to provide and oversee the following:

1. Employment and payment of specified, named employees sufficient to manage the property assets;
2. Coverage of its own overhead;
3. Maintenance of accounting records in compliance with NYSTRS' requirements;
4. Collection of all miscellaneous sources of income;
5. Appeal, if so directed by NYSTRS, reassessments of property taxes;
6. Payment of all bills and settlement of all claims;
7. Keeping of all buildings and other improvements in good order, repair, and condition;
8. Immediate provision of emergency repairs and services to the property;
9. Operation and maintenance of the property in accordance with all applicable statutes;
10. If appropriate, negotiation of contracts for utilities and the provision of all required utility services to the property;
11. Distribution to NYSTRS of all required cash at the specified time periods;
12. Prompt notification to NYSTRS of any condition of the property or its operations which fails to meet the requirements of adopted Asset Management Policies and Procedures, any pending legal action, or any fact which may adversely affect the operations of the property;
13. Provision of Workmen's Compensation and other insurance which may be identified in writing as required by NYSTRS; and



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14. Any other requirements of NYSTRS identified in writing to the Advisor.

Personnel of Asset Managers responsible for the handling of cash or who are signatories on any property related bank account shall be sufficiently bonded. Written evidence of such bonding shall be provided to the satisfaction of NYSTRS, as requested.

The Managing Director of Real Estate or designee shall:

1. Review annual operating and capital budgets for all property assets within parameters specified in the Permanent Policies and Procedures subsection;
2. Be responsible for all property management activities undertaken by the Advisor;
3. Attend and represent NYSTRS at all meetings pertaining to asset management policies and procedures for the assets managed by Asset Managers;
4. Take all other reasonable actions necessary for the proper operation of the properties and preservation of the assets;
5. Report to the Real Estate Advisory Committee and/or Investment Committee of the Retirement Board on actions taken under these and other delegations of authority which have a significant effect on the value of any real estate asset and/or the real estate Portfolio;
6. Monitor the execution of the delegations of authority granted the Asset Managers;
 - a. Ensure that appropriate types and levels of insurance are in force at all properties and that Asset Managers have in force reasonable levels of liability insurance; and
 - b. Ensure that all property level taxes and assessments are paid on a timely basis on each property investment.

C. Preliminary Policies and Procedures

Advisors shall prepare preliminary asset management policy statements for approval by NYSTRS prior to funding. A preliminary asset management policy and procedures statement will include, if applicable:

1. Identification of local forestry consultants.
2. Initial management plans.
3. Environmental risk management plan, if necessary.
4. Market positioning related to competitive properties and other market influences.
5. Reporting timing procedures and methodology.
6. Preliminary disposition strategies.

D. Permanent Policies and Procedures

Permanent asset management policies and procedures shall be defined and adopted in accordance with the following requirements:



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1. Property Management Plan

a. Purpose

The purpose of the property management plan is to describe the operating plan for the property over the short and long term. It will include the current year budget summary and detail by tract, as well as, budget summaries for the following four (4) years in lesser detail.

b. Timing

An initial property management plan will be submitted by the Asset Manager to the Managing Director of Real Estate no later than six (6) months after closing. The plan must be updated by the Asset Manager and submitted to NYSTRS annually. NYSTRS will schedule meetings with the Asset Managers to review the plan.

In subsequent years, the property management plan will be prepared and submitted to NYSTRS no later than thirty (30) days before the beginning of the fiscal year.

c. Information Requirements

Asset managers shall prepare initial and subsequent property management plans that satisfy the information requirements as specified by NYSTRS.

2. Reporting

a. Property Management Plans

The requirements and timing for the property management plans are discussed in the subsection Property Management Plan.

b. Monthly Reports

As requested by NYSTRS, Asset Managers shall provide monthly statements of cash and bank reconciliations, including bank statements.

Asset Managers shall reconcile these reports to NYSTRS' cash received, budgets, operating policies, and accounting procedures. The Asset Manager shall deliver the monthly reports to NYSTRS within thirty (30) working days after the end of each month.

c. Quarterly Reports

Each calendar quarter, the Asset Managers shall prepare on a fair market value basis an operating and status report, a balance sheet, and an income statement. This report will contain individual property information as well as consolidated information for all properties the Asset Manager manages for NYSTRS. The report shall be submitted to the Managing Director of Real Estate. Required quarterly reports shall be delivered to NYSTRS within forty-five (45) working days after the end of each calendar quarter. The report shall contain information as specified by NYSTRS. All monthly and quarterly reports shall be maintained in the NYSTRS real estate program filing system.

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3. Valuations**a. Independent Third Party Appraisals**

Independent third party appraisals shall be conducted on all NYSTRS real estate assets prior to closing and every three (3) years thereafter. The scope (full appraisal versus appraisal update) and timing of interim appraisals will be determined by NYSTRS based upon known market changes and recommendations from the Advisors. Appraisal methodology will be as set forth in Exhibit 1, attached hereto. NYSTRS has the right to request an interim appraisal for any asset at any time. No two (2) successive appraisals of any property may be performed by the same appraiser or appraisal company.

The Advisor shall maintain a list of qualified appraisers and engage one (1) or more to conduct the scheduled or required appraisals on the individual property assets. NYSTRS will be notified prior to such engagement and will have the right to disapprove any appraisal assignment. The credentials/qualifications outlined on Exhibit 2 shall be utilized when determining whether an appraiser should be included on the list.

Appraisers will be engaged directly by the Advisor. The Advisor will be responsible for coordination of the appraisal process and review of appraisal reports. Original copies of the appraisal reports shall become part of the permanent files maintained by NYSTRS for each property.

The cost of the appraisal shall be borne by NYSTRS.

b. Quarterly Valuation Process

At the end of the first quarter during which a property is purchased, it will be valued on the quarterly financial statement at cost. The following quarter and every quarter thereafter (as of the last day of each calendar quarter), the property will be valued by its component parts of land, merchantable timber, and pre-merchantable timber, as set forth in Exhibit 1. Land will be valued at purchase price for the first year following acquisition. Thereafter, it will be adjusted on an annual basis as set forth in Exhibit 1. The Asset Manager will report the results of the internal valuation of each property as set forth in this Timberland Investment Policy.

4. Property Management and Leasing**a. Property management policies and procedures**

Annual property management guidelines shall be identified by Asset Managers and presented to the Managing Director of Real Estate or designee in the initial property management plan and updated in subsequent plans. The guidelines shall include marketing strategies, property management and leasing contract conditions, and in-depth management necessary for long-term timber production, including, but not limited to:

- Surveillance and protection of properties,
- Conducting sales of all timber from properties,
- Conducting sales of all mineral rights, land leases, etc.,
- Assisting in reviewing of independent appraisals of each property,
- Managing and implementing all stewardship projects, and



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- Hiring qualified contractors and overseeing all contractor activities, including:
 - site preparation and planting;
 - road, bridge, gate, and culvert construction and maintenance;
 - plowing and maintenance of firebreaks;
 - property boundary line maintenance (marking) and surveys;
 - vegetation management, chemical or mechanical;
 - insect and disease control;
 - slash burning and fire suppression;
 - fertilization;
 - stocking control;
 - animal control;
 - individual tree marking for harvest operations;
 - surveying for threatened and endangered species; and
 - archeological or other specialized surveys outside the scope of services customarily provided by professional timberland managers in the area in question.

While there will be no specific current cash flow requirements, property management policies should include provisions to generate, to the extent possible, sufficient cash flow to cover expenses of property management, taxes, and the Advisor's fees. Five-year management budgets will be prepared and included in the initial property management plan and updated annually for each property. Practices will be scheduled that increase property values and optimize cash flow in order to maximize returns. Each timber stand's economic maturity will be analyzed using computer-based growth and yield models to develop long-term harvest schedules. Timber sales will be planned using the long-term harvest schedule as a guide.

b. Leasing Policies and Procedures

To the extent possible, all lease forms and existing and new leases for any property asset shall be standardized as soon as practicable after funding or closing.

5. Property Inspection

The Asset Manager shall maintain current information regarding the physical condition of any property as well as the competitive factors and specific market area trends affecting the property. In addition, the Asset Manager shall be required to physically inspect the property and its general market area at least once quarterly, unless otherwise provided for in the permanent Property Management Plan for the property, for the purpose of maintaining conformance with the Plan.

The information derived from the property inspection shall be communicated to NYSTRS in the quarterly report where appropriate and used as a basis for modifications to the annual plan.

6. Audits

NYSTRS requires an annual audit of all timber investments. The audit should be performed by an independent certified public accountant. For wholly-owned properties, the Managing Director of Real Estate or designee will engage the independent certified public accountant and all audit reports and findings as a result of the audit will be directly communicated to the Managing Director of Real



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Estate or designee. All audit reports should be provided to NYSTRS within one hundred eighty (180) days of the holding entity's year-end.

7. Accounting

For specified property investments, the accounting systems employed by the Asset Manager and internally by NYSTRS are on a fair market value basis of accounting. Advisor fees will be expensed on NYSTRS' books.

The accounting for all activities for each property asset shall be established at the property level by the Asset Manager and at the portfolio level by NYSTRS in substantial conformity with generally accepted accounting principles (GAAP).

A cash management system with the proper level of internal controls by the Asset Manager over all cash receipt and cash disbursement items is critical to NYSTRS. In accordance with the previously specified duties and responsibilities of the Asset Managers, rents and miscellaneous sources of income shall be collected and expenses paid at the property level. All property operating bank accounts shall have as signatories appropriate personnel of the Asset Manager. The Asset Manager will submit the name(s) of bank(s) and account number(s) for NYSTRS' approval. The Asset Manager policy manual for short-term cash investments and criteria used by the Asset Manager in selection of the bank(s) should be submitted to NYSTRS for review.

Excess funds held in bank accounts by the Asset Manager should be kept to a minimum. An operating reserve sufficient to cover three (3) months of anticipated expenses shall be maintained by the Asset Manager. Funds that are held in bank accounts as compensating balances to reduce fees and/or charges by the Asset Manager should be communicated to NYSTRS' Real Estate and Investment Information Departments.

Unless NYSTRS provides prior approval for a different schedule, the frequency of distributions to NYSTRS should be at least quarterly. The Asset Manager will be responsible for providing NYSTRS' Investment Information Department with prior notification of the amounts and expected delivery dates of the transfers, monitor the timely transfers of funds to NYSTRS' account, and ensure that confirmations of the transfers are immediately provided to the Managing Director of Real Estate or designee. The wired funds will include a description on the wire as to the property name and what the distribution is for, such as land sales and/or operating cash flow distributions. Within three (3) days prior to the transfer of funds to the NYSTRS' account, the Asset Manager shall make certain that a reconciliation statement is sent to the NYSTRS' Managing Director of Real Estate and to the Investment Information Department showing the following:

- a. The source and amount of wired capital by property;
- b. The category of wired capital (excess monthly cash flow, preferred returns, interest earned, mortgage payment, etc.);
- c. The net amount wired;
- d. Any appropriate explanatory notes; and
- e. Supporting documentation for expenses deducted from monthly distribution.

**Timberland Investments****8. Environmental Policy**

For all real property assets with any defined or potential environmental hazard, NYSTRS will adopt an environmental hazard management plan as a part of its permanent asset management policies and procedures as defined in the business plan. No property investment should be consummated without full compliance with all requirements enumerated in Section IV.B.3 entitled Environmental Hazard Review of the Equity Real Estate Investment sub-policy of the Investment Policy Manual.

The basic objective of a property-specific environmental hazard management plan is to manage risk by providing awareness of any potential hazard (including those from hazardous waste, toxic waste, radon, asbestos, or unknown origin) to any person in occupancy at any property, facilitate abatement or cleanup of any hazard, reduce to the extent possible future adverse effects from the existence of any hazard, continually monitor the effect on a property and its tenants from any hazard, and minimize the potential liability of NYSTRS.

VI. Disposition Procedures**A. Disposition Plan**

Timber will be sold when it is economically mature or when dictated by biological conditions such as the need for thinning or insect control. Market conditions will influence the exact timing of timber sales. As to land sales, timberland tracts generally will be held for long-term investment; however, the Advisor will monitor local markets for occasional land sale opportunities. Property will be sold when the sale price is greater than the estimated net present value of the tract's future cash flows if held for timber production. Properties will be sold either directly by the Advisor or, when market conditions or other circumstances dictate, by a local broker selected by the Advisor.

Asset Managers are required to conduct a formal hold/sell analysis for all NYSTRS' real estate investments as part of the annual property management planning process. As dictated by market conditions and other events, the Asset Manager may also make a sale at other times. In the event an Asset Manager determines that an asset should be sold, the Asset Manager shall provide the Managing Director of Real Estate or designee (via the management plan, quarterly report, or on an as needed basis) with the following:

1. Specific reasons for the sale;
2. Structure of disposition (outright sale, partial sale, etc.);
3. Potential gross disposition price and basis for said price assumption;
4. Identification of potential buyers;
5. Process for implementing any disposition decisions (need for brokers, appraisers, engineers, and other professionals);
6. Anticipated disposition period and closing date;
7. Estimated costs of sale;



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8. Estimated net disposition proceeds;
9. Estimated cash received from sale by NYSTRS;
10. Estimated NYSTRS' internal rate of return for the asset's holding period; and
11. A summary of any trailing liability issues (if any) that NYSTRS would have to consider related to the sale.

The foregoing informational requirements for property dispositions shall not apply to dispositions arising from routine thinning harvests, the grant of utility easements, or dispositions of timberland consisting of fewer than ten (10) acres where the disposition is a result of taking by eminent domain.

The Advisor retains full discretion in making the decision to sell timber or land.

The Asset Manager shall be responsible for the transmission of NYSTRS' disposition proceeds, net of costs of sale, directly to the NYSTRS account at a bank designated by the Managing Director of Real Estate or to the account of the title-holding entity, as appropriate.



Exhibit 1 - Valuation of Assets

- A. Valuation. The Advisor will determine the market value of the assets of NYSTRS as of the last day of each calendar quarter. Any such date is referred to as a valuation date. The results of such valuations of the Account will be reported to NYSTRS in the quarterly reports as required in Section V.D.2 of the Timberland Investment Policy.
- B. Method of Valuation. The Advisor will use the following methods in the valuation of the assets of the Account:
1. Timber will be valued based on its latest inventory (which shall be updated not less frequently than every six (6) years), adjusted for estimated timber growth (based on the Advisor's best reasonably available information, and modified to reflect interim cuttings, new plantings or significant reproduction, and other relevant factors). The resulting inventory will be valued based on publicly quoted timber prices for the relevant geographic area. In connection with such valuation, the Advisor may use information from licensed foresters performing timber cruises or appraisals from real property appraisers.
 2. In determining the market value of any real property interest in land, the Advisor may use any professional appraisal made within three (3) years prior to the valuation date, provided that NYSTRS may, at its option, require a professional appraisal to be done more frequently. The appraisal used will be updated annually by the Advisor based on its assessment of land values in the area, the state of the market for similar land and such other factors as it deems relevant.
 3. All properties shall be re-appraised not less frequently than every three (3) years by an outside independent appraiser or appraising company selected by the Advisor in accordance with Section V.D.3 of the Timberland Investment Policy, provided that, should NYSTRS object to the appraiser or appraisal company so selected, the Advisor will select an alternate appraiser or appraisal company satisfactory to NYSTRS.
 4. Assets other than debt and equity interests in timber and land will be valued at market value based on data obtained from sources considered by the Advisor to be best qualified. The Advisor may rely on the market value of similar investments for which a market value is readily ascertainable or retain, with prior written approval of NYSTRS, at such intervals as it deems necessary, a qualified appraiser or appraisers for such purpose.
 5. Each calendar quarter the Advisor shall provide NYSTRS, as part of its quarterly report, a valuation summary for each property in the Account. The summary shall include merchantable timber volume, value per unit of merchantable timber volume, acres by age of pre-merchantable timber, value per acre of pre-merchantable timber, total acres of land, and value per acre of land. Significant market and industry factors which have materially affected the valuation during the quarter will be described in a narrative report in the quarterly report.



Exhibit 2 - Qualifications for Appraisal Firms

Appraisers and appraisal firms will be selected with care and diligence. The selection will include a review of each candidate's education, experience, references, and recent sample reports. The following credentials / qualifications should also be considered:

- A. The firm must be well established with a solid reputation for honesty, integrity, and adherence to professional appraisal standards and shall generally be registered foresters. This must be verified by obtaining and contacting references for all candidate firms.
- B. The firm's appraisers must have professional training and expertise in forestry as well as appraisal methodology and practice. This is documented by sample appraisals and résumés of key personnel and staff appraisers obtained from candidate firms, which are reviewed and maintained on file at the Advisor's office.
- C. The candidate firm must be large enough or have established working relationships with other firms to provide the human and technical resources needed to conduct large-scale timber inventories, which may be part of the appraisal assignment.
- D. The candidate firm must be properly licensed and/or certified to do appraisal work in the state in which the subject property is located.
- E. Where possible, appraisers with the Member Appraisal Institute (MAI) designation combined with appropriate forestry training and timberland appraisal experience will be utilized.
- F. Candidate firms shall have no direct or indirect economic interest in the Advisor.
- G. The Advisor will show preference to candidate firms with whom they had prior experience.



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Private Equity Investments

I. Introduction

The System's private equity investments may include a variety of direct and indirect equity and debt investments that fall outside the core portfolios of stocks, bonds, mortgages, and real estate that are managed by System staff and external investment managers.

The types of private equity include but are not limited to investments in venture capital, mezzanine, or buyout funds and direct co-investment with these funds. Other private equity investments may include public securities received as distributions from the venture capital, mezzanine, or buyout funds, as well as the initial public offering (IPO) of equity securities.

Private equity investments may be attractive for the benefits of diversification and for long-term returns higher than those expected for marketable securities. Participation in this asset class, however, involves significant trade-offs including lack of liquidity; initial periods of little, if any, return with the expectation of higher returns later; higher management and operation costs; time-consuming evaluation procedures; and complex contractual structures.

Since the potential for distress in many private equity investments is great, there must be appropriate due diligence at every stage of the investment process.

The portfolio structure for private equity investments should be designed to control, to the greatest extent possible, the investment management costs for this asset class.

Background:

To date, the System's experience has been in the following areas: limited partnerships (mostly venture capital, buyout, and mezzanine funds) and commingled trust funds. Other types of private equity investments may be available and may be utilized upon the approval of the Retirement Board.

II. Purpose

To achieve higher long-term returns than are normally available through marketable securities, Investment objectives may cover periods of ten (10) years or more.

III. Performance Objective

A. To earn, over the long term, an average total return that provides a substantial real return and experiences a risk level commensurate with return. In early years, investment return may be zero or even negative after considering expenses.

B. For private equity, the return objective is to exceed the S&P 500 Stock Index plus five percent (5.0%) over the long term.

C. Performance objectives are net of fees and expenses.



Private Equity Investments

IV. Management Structure

The Managing Director of Private Equity, with the assistance of investment consultants as the Managing Director deems necessary, shall oversee the selection of external private equity investment managers and monitor those external private equity investment managers.

The utilization of various structures offers the potential to diversify and to reduce risk. The type of structure used by the System will be selected in light of: the form of investment under consideration; the System's objectives and time horizon; the System's ability to evaluate and monitor complex legal structures and the actual operations under these structures; and the cost of each operation.

Private equity investments may be divided into three common investment structures:

- A. **Direct investments.** The System may directly invest in the debt or equity of a company. This may be done as a coinvestment with the general partner of a limited partnership that we participate in, or by holding securities that were distributed by a limited partnership of which we are part, or through purchase in an IPO.
- B. **Limited Partnership Interest.** In a limited partnership, the general partner is in charge of managing and investing the partnership's assets. Initially, the partnership's assets consist of cash contributed by the investors, as limited partners and the general partner. Legally, unless the partnership is a fund of funds, the relationship between the general partner and limited partners is not primarily one of client/manager, but rather that of partners in an investment venture, although certain fiduciary duties are owed by the general partner to the limited partners. As used herein, however, the term investment manager shall be construed broadly to include the general partner in a limited partnership. General partners in venture capital/mezzanine funds may not be registered under the Investment Company Act of 1940.
- C. **Fund of Funds.** The structure is the same as a limited partnership, except the general partner invests in other limited partnerships rather than individual companies.

The System may encounter other structures as it continues investing in private equity investments, particularly in the case of non-U.S. funds.

V. Legally Permissible Investments

Overall, private equity investments would be made pursuant to the Leeway Clause [§177(9) of the Retirement and Social Security Law].

VI. Risk Management

NYSTRS' Board understands the long-term nature of the asset class and that private equity investments are intended as a permanent component of the portfolio. Private equity investments have been incorporated into the portfolio in order to provide both enhanced returns and risk diversification over market cycles. While private equity investments may have a higher risk profile than more traditional asset classes, e.g., fixed income and public stocks, the Board recognizes that the primary risk of private equity investments within a well-diversified portfolio is illiquidity, particularly in the investment phase of each partnership's life cycle. That risk/return trade off is acceptable to the Board given the enhanced returns relative to other asset classes and the relatively low correlation between private equity investments and the more traditional asset classes.



Private Equity Investments

In addition, NYSTRS' liquidity needs are such that having a component of the portfolio with a longer duration to liquidity is not a problem within the context of the portfolio as a whole.

- A. **Diversification:** Private equity investments contribute to the diversification of the overall portfolio. The asset allocation target for Private Equity, overseen by the System's Managing Director of Private Equity, is seven percent (7%) with an allowable range of 4-12%. Within the private equity asset class:
1. Consideration may be given to differing forms of private equity investments, provided the risk level is fully understood, and such level of risk is appropriate to the System's Investment Policy.
 2. The diversification of private equity investments should be generally consistent with each investment type's portion of the total market of private equity investments.
 3. Generally, the System's interest in a fund may not be more than the greater of \$50 million or twenty percent (20%) of that investment fund, unless the investment is structured by the System to have only one or a small number of Limited Partners.
 4. No more than forty-five percent (45%) of the total assets managed by any one manager (including such manager's affiliates) may be owned, directly, or indirectly, by the System.
 5. New types of private equity investments, or emerging segments of the market, will be considered by the System only after they are sufficiently large enough to allow the System to invest a meaningful amount consistent with items 3 and 4, above.
 6. Unless specifically approved by the Retirement Board, the following types of alternative investments are excluded from investment:
 - a. Hard assets: precious metals, stamps, coins, antiques, and art.
 - b. Derivative related: hedge funds, derivatives, commodities, etc.
- B. **Due Diligence:** Before an investment manager is retained, System staff must undertake the necessary due diligence to ensure that such manager is experienced, trustworthy, and otherwise qualified to manage a portion of the System's assets. Due diligence should include:
1. Ascertaining the financial, educational, and experiential background of key personnel, and otherwise examining the track record of the investment manager under consideration;
 2. Contacting other past and current clients to ascertain their level of satisfaction with the manager;
 3. Examining any SEC forms, other similar agency reports, or prospectuses which may be readily available;
 4. Consulting any services/publications which may rate or otherwise offer pertinent information regarding the prospective manager;
 5. Whenever System investment staff is considering investing in a new investment fund or engaging an investment manager, staff will communicate directly with general partners and/or principals of the fund or manager interested in doing business with the System, in order to assure transparency and accountability on the part of private equity funds and external investment managers; and
 6. Taking such other measures as, under the circumstances, may be appropriate.



Private Equity Investments

- C. **Legal and Business Considerations:** Private equity investments may involve complex, non-standard business and legal relationships, and contract documentation may be both highly complex and specialized. Due to the non-standard nature of private equity investments, the System will seldom be able to use in-house off-the-shelf contract documentation, with the result that the investment manager's form of agreement is used as a base for negotiations. These agreements, limited partnership agreements in particular, are often drafted with comprehensive protections built in for the investment manager. Serious consideration shall always be given to obtaining special counsel and other advisors qualified to represent the System's legal and business interests. The possibility of sharing the cost of such counsel and outside advisors with other similarly-situated investors will be explored as appropriate.
- D. The actions of the investment manager should be consistent with the following:
1. **Diversification:** To the extent reasonably possible and taking into account the size and nature of a particular private equity investment portfolio, as well as market conditions, the investment manager is to diversify the portfolio's assets in order to minimize risk of loss.
 2. **Acquisition/Sale of Private equity Investments:** Each manager is expected to complete all necessary due diligence including legal, financial, technical, or investment-specific review necessary to determine the potential opportunities and risks for each private equity investment considered.
 3. **Acknowledgments in Writing:** Each investment manager retained by the System must be a person, firm, or corporation registered as an investment adviser under the Investment Advisors Act of 1940; a bank as defined in such Act; an insurance company qualified to do business in more than one state; or other experienced and qualified organization meeting all industry and System standards. SEC-registered firms will be expected to provide a copy of the SEC ADV Form Part II on an annual basis.
 4. **Discretion:** Subject to the guidelines in this section and the policies documented herein, each investment manager will have full discretionary authority over the assets represented by the System's capital contribution.
 5. **Conflicts of Interest:** An investment manager must fully disclose potential conflicts of interest to the partnership's advisory board, or other appropriate entity, pursuant to the partnership agreement. System staff will pursue membership on limited partner advisory boards when appropriate to represent NYSTRS' interests. Contract language may be sought restricting new start-up ventures by the investment manager until commitments to current portfolio have been sufficiently invested.
- E. **Distributions:** Given a choice, the System prefers cash distributions. Stock distributions will be processed by the System's distribution manager with the intent of achieving an orderly liquidation of the securities.
- F. **Monitoring and Control:** System staff will pursue membership on limited partner advisory boards when appropriate to maximize the communication with the general partner and to strengthen the oversight of these investments.

VII. Communications

- A. **Retirement Board Reporting:** The Private Equity Department will provide a quarterly report showing the status of each private equity investment to the Investment Committee of the Retirement Board.
- B. **External Investment Manager Reporting:** The external investment manager shall:



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1. Provide quarterly or semi-annual interim financial reports and annual audited financial statements prepared by an independent certified public accountant.
2. Immediately report all instances of default on the partnership agreement to the staff and provide recommendations regarding options for curing the default, withdrawing from the investment or other appropriate actions.

VIII. Responsibilities & Controls

Responsible Party	Action
Investment Information Department	<ol style="list-style-type: none"> 1. Prepare a 12 month cash flow forecast for the Internal Investment Committee on a monthly basis. This forecast brings together cash available to invest with planned program investments and targeted asset allocations while contemplating the benefit payment and operational cash needs of the System. By focusing on significant sources or uses of cash the Internal Investment Committee assures coordination of investment strategies, funding of annuitant benefits and adherence to asset allocation targets.
<p><u>SELECTION:</u></p> <p>Managing Director of Private Equity</p>	<ol style="list-style-type: none"> 2. Recommend investments within guidelines. This process is opportunity driven rather than asset allocation driven. It involves a thorough analysis, can be time-consuming, and may require expertise beyond in-house capabilities. For these reasons, a consultant(s) may be hired to assist in the process. 3. Due diligence includes communications with general partners and/or principals of the fund or manager interested in doing business with the System, in order to assure transparency and accountability on the part of private equity funds. 4. Work with the Legal Department in negotiating any legal documentation and drafting required terms. Other parties may be called upon for assistance in this process including outside counsel, Finance, and other departments as needed.
Legal Department	<ol style="list-style-type: none"> 5. Select outside counsel sufficiently experienced and expert in the form of the private equity investment under consideration. 6. Work with outside counsel in negotiating the final form of any contract which may be required.
Private Equity Department	<ol style="list-style-type: none"> 7. Receive, review, and approve all notices (or requests) for funding received by investment manager. 8. Receive, review, and approve all notices of distributions of funds

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	<p>to the System by the investment manager.</p> <p>9. In a timely manner, instruct Investment Information Department to disburse or receive funds to/from the investment manager.</p> <p>10. Prepare warrant and submit to Internal Audit.</p>
Internal Audit	11. Pre-audit warrant and submit to Executive.
Executive	12. Approve warrant to disburse funds.
Finance Department	13. Receive signed warrant from Executive and forward to NYS Treasurer.
NYS Treasurer	14. Record payment.
Finance Department	15. Post warrant to General Ledger and retain executed copy.
Investment Manager	16. In compliance with System policies and contract, manage the private equity investment portfolios on a day-to-day basis using full discretion. This includes, but is not limited to, selecting and valuing investments.
<u>MONITORING:</u> Private Equity Department	<p>17. Maintain ongoing relationship with investment manager(s) and/or consultant(s).</p> <p>18. Maintain reports and correspondence files.</p> <p>19. Act as a liaison between Investment Information Department and the manager on reconciliation issues.</p>
Investment Information Department	<p>20. Perform investment related accounting and reporting, applying appropriate accounting controls.</p> <p>21. Follow up on outstanding reconciling items to ensure resolution.</p>
Investment Information Department in conjunction with Private Equity Department	22. Ensure compliance with the program as deemed appropriate, which may include reconciling to external financial statements and verifying income allocations, fees, and distributions.
Legal Department	23. Assist staff and render legal advice regarding any



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	developments occurring during the life of the investment.
<u>EXITING:</u> Private Equity Department	24. May decide (with the possible assistance of a consultant) to exit an investment sooner than the contractually agreed upon date, should performance and other considerations merit termination.
Legal Department	25. Assist staff and render advice as needed.



NEW YORK STATE TEACHERS' RETIREMENT SYSTEM
INVESTMENT POLICY MANUAL

Securities Lending

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Securities Lending

I. Introduction

This policy governs the lending of securities directly owned by the System. It does not address securities lent from commingled investments (See Selection, Monitoring, and Termination of External Investment Managers for Publicly Traded Securities policy regarding the monitoring of securities lending administered by commingled fund managers.).

Securities lending occurs when the System transfers a security to a borrower, such as a broker-dealer or bank, for cash or non-cash collateral pursuant to an agreement to return the identical security in the future. Securities are borrowed for a variety of reasons including: settlement of short sales and to cover hedges, options, arbitrage positions, and settlement fails. Consequently, the borrower receives custody of the transferred security and has the right to resell it. The borrower, however, is obligated to return the exact same security at the end of the loan period and to make the System whole for dividends, interest, and other distributions as if the security remained in the System's portfolio.

II. Purpose

To prudently supplement the income normally received from investments.

III. Performance Objective

To obtain market lending rates for non-cash collateral. For cash collateral, to invest at a rate exceeding the borrowers' rebate rate in a Short Term Investment Fund (STIF), to provide the System with incremental income.

IV. Management Structure

Securities lending is conducted pursuant to a written agreement with the System's agent lender(s). The agent lender(s) reviews and selects the borrowers, negotiates the lending terms, and collects all cash collateral and loan premiums. Additionally, the agent lender(s) invests the cash collateral pursuant to System approved investment guidelines and may act as custodian of the System's cash collateral short term investment fund (STIF). A portion of the interest earned on the cash collateral is remitted to the borrower as a result of a negotiated rebate. For non-cash collateral, the borrower pays the System a loan premium for lending the security.

V. Legally Permissible Investments

Subject to a determination by the Internal Investment Committee that securities lending is prudent, the System is authorized by Retirement and Social Security Law (RSSL) §177-d to enter into written security loan agreements. Agreements to lend a security must be with a broker-dealer or with New York State or nationally chartered banks and must not exceed a period of one (1) year.

Additionally, the System may lend only those securities that are freely traded on recognized exchanges or marketplaces, which may include U.S. government bonds and domestic corporate equities and bonds. The following provisions also apply to all System security loan agreements:



Securities Lending

- A. The System must retain the right to collect from the borrower all dividends, interest, premiums, rights, and any other distributions to which the System otherwise would have been entitled;
- B. The System must retain the right to terminate the contract upon not more than five (5) business days' notice;
- C. The borrower must provide collateral to the System in the form of cash, bonds, or performance letters of credit drawn on a bank with capital, surplus, and undivided earnings in excess of \$100 million or other interest-bearing notes and obligations of the U.S. or federal instrumentalities eligible for investment by the System;
- D. The security loan agreement must provide for payment of additional collateral on a daily basis or at such time as the value of the loaned marketable securities increases to agreed upon ratios;
- E. The market value of the loaned securities must be monitored daily. The value of the collateral posted must remain at or above the market value of the loaned securities; and
- F. The System may waive the right to vote the securities during the term of the loan.

Asset allocation does not apply to this investment activity; however, the market value of securities loaned by the System shall not exceed twenty percent (20%) of the market value of the System's invested assets.

VI. Risk Management

- A. Borrower Counter-Party Credit Risk: Credit risk is controlled by the following measures:
 - 1. The agent lender shall lend securities to borrowers that have been approved by the agent lender's counter-party credit operations;
 - 2. The agent lender shall collect all cash and non-cash collateral from the borrower;
 - 3. The agent lender shall provide safekeeping for any non-cash collateral received;
 - 4. The agent lender shall indemnify the System for any losses resulting from broker default on return of securities as well as dividends, interest, or other distributions resulting from a default by the borrower;
 - 5. The agent lender shall return securities to the System, in the event the System decides to recall a loan. This should occur within the normal settlement period for that security class, which would be, at most, three (3) days; and
 - 6. The agent lender shall collect all distributions to which the System would otherwise have been entitled and remit same to the System as if no security loan existed.
- B. Market Risk: Controlling market risk in the System's securities lending program is addressed in two categories: the overall program and the STIF.



Securities Lending

1. The overall program:

- a. The agent lender shall ensure that initial collateral received is at least 102% of the market value of U.S. securities loaned or 105% of the market value of non-U.S. securities loaned, plus accrued interest, if applicable, and
- b. The agent lender shall mark to market the securities on loan on a daily basis and adjust collateral required from borrower using the target of 102% for U.S. securities on loan and 105% for non-U.S. securities on loan.

2. The STIF:

The agent lender shall invest any cash collateral in a STIF pursuant to investment guidelines approved by the Fixed Income and Legal Departments that contain, at a minimum, the following provisions:

- a. The guidelines must contain specific credit quality standards, as follows:
 - 1) For investments with an original maturity of one (1) year or less: at the time of purchase, no investments may carry a program or instrument rating from the following three (3) nationally recognized statistical rating organizations (NRSRO), if so rated by the entity, of less than P-1 by Moody's, A-1 by S&P, or F1 by Fitch.
 - 2) For investments with an original maturity greater than one (1) year: at the time of purchase, no investments may carry a program or instrument long-term rating from the following three (3) NRSROs, if so rated by the entity, of less than A2 by Moody's, A by S&P, or A by Fitch.
- b. STIF investment maturities must fall within particular timeframes to assure liquidity. The STIF investment guidelines specify maximum periods for individual investments, weighted average portfolio duration, and maturities.
- c. The portfolio must be diversified by issuer.
- d. Types of eligible investments must be identified in the STIF investment guidelines.

C. Operational Risk:

1. A written contract, reviewed by the System's Fixed Income, Investment Information, and Legal Departments shall govern the relationship between the System and the agent lender(s);
2. The agent lender(s) shall utilize written contracts (i.e., security lending agreements) to govern relationships with the borrowers; and
3. The Communications and Responsibilities & Controls sections will delineate the measures implemented to control operational risks.



VII. Communications

A. Retirement Board Reporting:

The Investment Information Department (IID) will provide a quarterly report for inclusion in the minutes of the Investment Committee of the Retirement Board showing the market value of securities on loan and their percent of total invested assets, collateral held by the custodian, and year-to-date lending income.

B. Agent Lender Reporting:

1. The Investment Information Department will receive daily exposure reports showing the level of collateral held for each borrower, STIF investment reports showing the portfolio composition, maturity, and credit quality;
2. The Fixed Income Department will receive daily collateral reports showing the investment composition of the STIF account, pertinent ratios such as overnight liquidity, maturity, issuer exposure, credit quality, and other information as required; and
3. The Investment Information Department will receive monthly earnings reports showing the monthly earnings in detail.

**Securities Lending****VIII. Responsibilities & Controls**

Responsible Party	Action
Agent Lender	<ol style="list-style-type: none">1. As fiduciary for the System, and in compliance with the Retirement and Social Security Law, System policies, and STIF guidelines, manage the lending program on a day-to-day basis. This includes negotiating all loan terms, approving borrowers and issuers for investment in the STIF based upon credit analysis, management of the cash collateral fund, maintaining collateral, and collecting income.
Investment Information Department	<ol style="list-style-type: none">2. Perform all investment-related accounting and reporting, applying appropriate accounting controls.3. Review exposure report daily for adequate collateral, ask agent lender for explanation or correction, close loan if correction is not made within two (2) business days.4. Monitor borrower defaults and the System's coverage of shortages.5. Review reconciliations of outstanding loans per agent lender to custodial positions.6. Review monthly earnings statement for reasonability. Verify calculation of lending fee split and assure timely collection of lending income.7. Perform a periodic review of program performance of each agent lender.8. Negotiate contracts with agent lender(s) and custodial bank governing securities lending. Serve as the primary relationship liaison with agent lenders.
Fixed Income Department	<ol style="list-style-type: none">9. Receive the STIF reports from the agent lender daily, reviewing recent investment activity, duration, earnings yield, program spread, and liquidity.10. On a weekly basis, perform a detailed documented review of STIF accounts for compliance with the qualitative and quantitative investment guideline requirements, such as liquidity, credit quality, eligible investments, performance, issuer exposure limits, and maturity.11. Meet with Investment Information Department to discuss their respective reviews and issues of concern with the lending program.12. Converse at least monthly with the STIF manager(s) regarding the composition and fund status and resolve issues of concern.

**Securities Lending****VIII. Responsibilities & Controls (continued)**

Responsible Party	Action
Fixed Income Department (continued)	13. Determine and approve cash collateral reinvestment guidelines to be adhered to by agent lender(s). 14. Together with the Investment Information Department, communicate lending program activities, issues, and concerns to the Internal Investment Committee on a periodic basis.
Investment Information Department	15. Assure timely recall of securities on loan, collection of income due, monitor buy-ins and facilitate partial calls and timely corporate action communication for securities on loan.
Legal Department	16. Review contracts with agent lender and custodial bank governing securities lending.
Investment Information Department	17. Prepare summary report for the Investment Committee of the Retirement Board, quarterly.