Office of the
New York City Comptroller
John C. Liu

NEWS RELEASE

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Contact: Sharon Lee, (212) 669-3747

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COMPTROLLER LIU ANNOUNCES MAJOR REFORMS TO PENSION FUND INVESTMENTS

Tough New Rules to Ensure Utmost Integrity and Best Practices, Protecting Taxpayers and Pensioners

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NEW YORK, NY - New York City Comptroller John C. Liu today announced sweeping changes in the way New York City pension funds make investment decisions. The reforms include prohibitions on gifts and campaign contributions, and will impose strict rules on employees of the Office of NYC Comptroller (including Comptroller Liu), employees and trustees of the New York City pension systems, fund managers, and placement agents. The current ban on private equity placement agents will be expanded to other fund types, but will be eased to allow legitimate placement agents who provide value-added services.

Comptroller Liu stated, "These changes have been formulated to ensure the utmost of integrity in investment decision-making, with the prime objective of maximizing returns to protect taxpayers and our pensioners. In the process, we reject "pay-to-play" schemes and embrace talent and potential for superior alphas. My office will be open and accessible, and up-and-coming fund managers, including many women and minority owned firms, can continue to but need not feel compelled to engage placement agents."

BAN ON CAMPAIGN CONTRIBUTIONS

- Comptroller Liu declines any campaign contributions from investment managers and their agents doing business with, or seeking to do business with, the New York City pension systems;
- This ban is above and beyond New York City Campaign Finance Act requirements.

NEW REQUIREMENTS FOR FUND MANAGERS

- Zero-tolerance gift prohibition - fund managers must certify that they have not given any gifts to any employees of the Comptroller's Office, nor to any employees or trustees of the New York City pension systems;

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- Minimizing contact - fund managers must disclose all contact with employees of the Comptroller’s Office regarding new investments as well as all contact with pension trustees and other individuals involved in the investment decision-making process;
- Disclosure of placement agents - fund managers must disclose all fees and terms relating to any firm retained to provide marketing or placement services, and that any such fees are fully paid by the fund manager;
- Agreement for recourse - fund managers must agree that the pension system(s) may terminate or rescind a contract or commitment for investment and recoup all management and performance fees for violation of these requirements.

NEW RESTRICTIONS ON PLACEMENT AGENTS AND THIRD-PARTY MARKETERS

- Expand current ban on private equity placement agents to include placement agents and third-party marketers for all types of funds, where such agents and marketers are exclusively providing “finder” or introduction services;
- Ease current ban on private equity placement agents to allow use of placement agents who provide legitimate value-added services such as due diligence and similar professional services on behalf of prospective investors;
- Require such agents and marketers to demonstrate the ability to raise capital outside NYC by establishing that they raised $500 million in at least two of the past three years from entities other than the NYC pension systems;
- Require full description of value-added services provided as well as resumes of key professionals and employees who contact individuals involved in decision-making process regarding a proposed investment;
- Require registration with either the Securities and Exchange Commission or the Financial Industry Regulatory Authority.

These new restrictions on placement agents and third-party marketers must be approved by the various pension boards. Resuming some use of placement agents, who provide legitimate value-added services, is consistent with the Securities and Exchange Commission's scaling back of its ban on placement agents, citing the work provided by these entities.

Comptroller Liu credited Deputy Comptroller for Pensions and Chief Investment Officer Lawrence M. Schloss for formulating these changes. CIO Schloss stated, “In light of the recent controversy surrounding the use of placement agents by New York State pension funds, these new policies are practical, straightforward and enforceable and will benefit all the constituencies related to the pension funds. We look forward to investing with the best in class asset managers whether or not they utilize placement agents or third-party marketers. We have taken these steps appropriately to eliminate the potential for the types of questionable activity that engulfed the New York State fund in order to better serve the interests of our pensioners. If you want our business, you must be open and honest with us and show us that you deserve it."

Any violation of the Comptroller’s reforms could pose a serious financial and reputational risk to the pension systems and investment managers. Agreements with investment managers will contain provisions entitling the pension systems to have the right to rescind an investment or commitment and recoup management and performance fees for any failure to disclose pertinent contact or relationship information with the pension systems.

“By accepting these reforms, New York City's pension systems can lead by example among institutional investors nationally to enhance the responsibility and integrity critical to making the best investment decisions,” Comptroller Liu said. “I'll work alongside our pension trustees to institute these changes and in the end we'll better protect the hard-earned money of the nearly 700,000 New York City pensioners.”

The Comptroller serves on the Board of Trustees of four of the five New York City pension systems and is investment advisor to, and custodian of, all five. The New York City Pension Funds are comprised of the New York City Employees’ Retirement System, Teachers’ Retirement System, New York City Police Pension Fund, New York City Fire Department Pension Fund and the Board of Education Retirement System and are collectively valued at $ 98 billion (as of 1/31/2010).

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