

**2005 PROXY INITIATIVES
OF
THE NEW YORK CITY PENSION FUNDS**

December, 2005

Corporate Governance Shareholder Proposals

In 2005, the New York City Comptroller's Office, under the leadership of Comptroller William C. Thompson, Jr., and with the authorization of the boards of trustees of the New York City pension funds (the "funds"), launched the funds' most extensive shareholder proposal campaign to advance corporate governance reforms, sustainable business practices, and to push companies to disclose how they are assessing and mitigating climate change risk. The campaign was very effective, achieving significant outcomes of proposal adoptions and majority votes at a number of companies. Proposals on 15 specific social and environmental issues were submitted to 72 companies. Proposals on 8 specific corporate governance issues were submitted to 33 companies. Five companies: Alcoa, ExxonMobil, Safeway, Saks, and VF Corporation, received two proposals addressing different issues.

The corporate governance reforms included a proposal to repeal the classified structure of corporate boards in order to improve director accountability to shareholders, and to remove the structure's impeding effect on unsolicited mergers and acquisitions and potential value enhancement. A 2002 study¹ found that classified boards provide antitakeover protection both by (i) forcing any hostile bidder, no matter when it emerges, to wait at least one year to gain control of the board, and (ii) requiring such a bidder to win two elections far apart in time rather than a one-time referendum on its offer. The study estimated that the classified board caused an aggregate loss of \$8.3 billion for target shareholders in the five-year period 1996-2000. The proposal was submitted to six companies—BEA Systems, Goodyear Tire & Rubber, Icos Corp., Charles Schwab, Newell Rubbermaid, and Saks, Inc. The board of Goodyear Tire & Rubber agreed to present a board proposal to the shareholders for the repeal of the classified board. Separately, at four companies—Newell Rubbermaid, Charles Schwab, BEA Systems, and Icos Corp.-- the Funds' proposal won substantial majority votes of 77%, 58%, 67% and 64%, respectively.

¹ Lucian Arye Bebchuk, John C. Coates IV & Guhan Subramanian, "The Powerful Antitakeover Force of Staggered Boards: Theory, Evidence & Policy," *Stanford Law Review* (2002).

A proposal requested the boards of ten companies to establish an engagement process between the boards of directors and proponents of shareholders' proposals that win majority votes. The companies were Baker Hughes, Calpine Corp., Covance, Inc., Delphi Corp., Honeywell Int'l, May Dep't Stores, Saks Inc., VF Corporation, Visteon Corporation, and Steris Corp. Four companies, Covance Inc., Saks Inc., VF Corporation, and Visteon Corporation adopted the proposal or fully satisfied its provisions. Two companies, Calpine Corp. and Steris Corp. adopted proposals that had received majority votes in past years and in response the proposal was withdrawn. The Funds' proposal garnered 49% of the votes cast at Baker Hughes.

Two proposals requested increased independence for members of key board committees. The proposal's definition of director independence reflected the funds' addition of a stringent criterion to previously established criteria of director independence. The new criterion disqualifies any director who was employed by a company on whose board the director serves. Two companies, PMC-Sierra, Inc. and Electronic Data Systems, agreed to adopt the funds' director independence standards. The shareholders of EMC Corp. supported the proposal with an impressive 22.2% of the shares voted.

A proposal seeking the adoption of a policy requiring shareholder ratification of the appointment of the independent auditor was submitted to five companies, Advanced Neuromodulation Systems, Alcoa, Inc., Global Industries, Unisys Corp., and WebMD Corp. Four companies, Advanced Neuromodulation Systems, Global Industries, Unisys Corp., WebMD Corp., adopted the proposal. The proposal was withdrawn at Alcoa because the company provided documentation that it had adopted a similar policy prior to its receipt of the funds' proposal.

One proposal asked five companies, Safeway Inc., Unumprovident, Unocal, Amerada Hess, and Kerr-McGee, to establish an office of the board of directors to enable direct communications between non-management directors and shareholders. The boards of directors of Amerada Hess and Unocal committed to adopt additional measures to existing arrangements, thus fully satisfying the standards set by the funds' proposal. The shareholders at three companies, Kerr-McGee, Unumprovident, and Safeway, subsequently supported the proposal by votes of 9.4%, 7.9% and 3.8%, respectively.

Corporate Social Responsibility Proposals

The corporate social responsibility initiatives included proposals seeking improvements in global workplace conditions, protection of labor and human rights, and the protection of the environment, including a proposal asking companies to disclose how they are assessing and mitigating climate change risk.

A proposal requesting sustainability reporting, i.e. disclosure of social, environmental and economic performance, was submitted to ten companies: Kroger, Lowes, Terex, Burlington Resources, Cooper Tire & Rubber, Kinder Morgan, Safeway, Albertsons, Dean Foods, and ConAgra. The proposal was presented to the shareholders at three companies, Cooper Tire & Rubber, Safeway, and Dean Foods, and received strong support of 29.3%, 16.7%, and 27.1% of the shares voted, respectively.

The funds co-sponsored a proposal seeking disclosure on business response to rising regulatory, competitive, and public pressure to significantly reduce carbon dioxide emissions at three companies—Dominion Resources, Apache Corporation, and Progress Energy. The proposal requested the boards of directors to prepare a report explaining how the companies are responding to rising regulatory, competitive, and public pressure to significantly reduce carbon dioxide emissions. In response, the boards of Apache and Progress Energy reached agreements with the primary filers to prepare reports on the companies' efforts to reduce carbon emissions.

One proposal asked two companies, ExxonMobil and Freeport McMoran, to review their business ties to the Indonesian military and security forces and to issue a report on their findings to their shareholders. There have been numerous reports of human rights abuses against indigenous populations by the Indonesian military in connection with security operations conducted on behalf of these companies. The proposal was supported by shareholder votes of 7.6% and 6.7%, respectively.

A proposal that requested companies to make all possible lawful efforts to implement and/or increase activity on each of the nine MacBride Principles was submitted to six companies: Alberto Culver, Claire's Stores, Crown Castle, Raytheon, TeleTech Holdings, and Yum Brands. Alberto Culver agreed to adopt the proposal. It received strong shareholder votes of 16.5%, 9.8%, 4.9%, and 14.7% at Claire's Stores, Raytheon, TeleTech Holdings, and Yum Brands, respectively.

A proposal asking companies to commit to full implementation of the International Labor Organization human rights standards in their international production facilities, and to independently monitor compliance with the standards was submitted to 18 companies: Best Buy, General Mills, Kimberly Clark, Bed Bath & Beyond, DiPont, Bard (CR) Inc., Cardiac Sciences, Cooper Industries, Gidene Corp., Fluor Corp., Imaging Diagnostic Systems, Primus Telecommunications, Sara Lee Corporation, Dillard's, Home Depot, Hasbro, Men's Wearhouse, and TJX. The average shareholder vote for the initiative, based on available voting results at eight companies—Kimberly Clark, Bed Bath & Beyond, DuPont, Bard (CR), Cooper Industries, Primus Telecommunications, Hasbro, and TJX-- was 16 %.

A proposal seeking the adoption of an explicit prohibition against discrimination based on sexual orientation was submitted to sixteen companies: Alcoa, Allegheny Energy, Reliant Energy, Dana Corp., BB&T Corp., Owens-Illinois, Echo Star Communications, Coventry Health Care, Harrah's Entertainment, Universal Health Services, Fischer Scientific Int'l, Advance Auto Parts, Land America Financial Group, U.S. Steel, Alltel, and ExxonMobil. Ten of the 16 companies—Alcoa, Reliant Energy, Dana Corp., BB&T Corp., Owens-Illinois, Coventry Health Care, Harrah's Entertainment, Fischer Scientific Int'l, U.S. Steel and Alltel-- agreed to include the prohibition in their Equal Employment Opportunity (EEO) policies. The proposal was supported by 29.4% of the shares voted at ExxonMobil.

A proposal requested three companies, Toys R Us, Cerner Corp., and Delta Airlines, to implement non-discrimination policies for sexual orientation and gender identity based on *The Equality Principles*. The boards at Toys R Us and Cerner Corp. agreed to adopt the proposal. The proposal was supported by 8.9% of the votes cast at Delta Airlines.

A proposal which requested The Coca-Cola Company to sponsor the sending of an independent delegation of inquiry to Colombia to examine the charges of collusion in anti-union violence that have been made against officials of the company's bottling plants in that country was supported by 5.4% of the shares voted at the company's annual meeting. Charges about the company's Colombia operations were raised in 2001 when the International Labor Rights Fund sued in U.S. District Court in Miami on behalf of a murdered worker at Coca-Cola's Panamco bottling plant. The suit claimed that Coca-Cola did nothing to stop paramilitary groups' violent intimidation, and even murder, of Coca-Cola's bottling workers who were interested in unionizing. Coca-Cola was subsequently dismissed as a defendant. However, the labor rights filed an amended complaint again naming Coca-Cola, since the company bought the Colombia bottling plant in May 2003.

In response to the funds' proposal, Coca-Cola has argued that based on its own investigation, as well those by the Colombian courts and the Colombian attorney general, it is convinced that the charges are unfounded. Accordingly, the company has concluded that sending an independent delegation to investigate the allegations would be duplicative and unnecessary.

One fund co-sponsored a proposal requesting the boards of two pharmaceutical companies, Eli Lilly and Wyeth, to adopt a policy that does not constrain the re-importation of prescription drugs into the U.S. by limiting the supply of drugs in foreign markets. The proposal received strong shareholder support with votes of 13.9% and 23.2% of the votes cast, respectively.

Finally, a proposal urging companies to reassess their business operations in countries that are designated by the U.S. State Department as "state sponsors of terrorism" was submitted to four companies: Aon, Cooper Cameron, General Electric, and Halliburton. Specifically, the boards of directors were asked to establish board committees to review the companies' operations in countries designated as "state sponsors of terrorism" by the

U.S. State Department, with particular reference to potential risks posed to the companies' finances and reputation. The boards of all four companies complied with the proposal.

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CORPORATE SOCIAL RESPONSIBILITY

(a) Review, and report on, operations of overseas subsidiaries in countries designated as sponsors of terrorism.

<u>COMPANY</u>	<u>SPONSOR</u>	<u>STATUS</u>
<u>New filings:</u>		
1. Aon	All NYC funds	<u>withdrawn</u> --the company committed to establish a senior management level committee to conduct a review of its operations in Iran, as called for in the funds' proposal
2. Cooper Cameron	All NYC funds	<u>withdrawn</u> --the company decided to have its UK subsidiary divest its interest in an Iranian joint venture
<u>Resubmissions:</u>		
3. General Electric	All NYC funds	<u>withdrawn</u> —company decided not to renew its Iranian contracts; originally company had submitted a no-action request to SEC
4. Halliburton	Police, Fire, BOE	<u>withdrawn</u> --company decided to take appropriate action to stop its subsidiaries from bidding for work in Iran

(b) Adopt an explicit prohibition of discrimination based on sexual orientation.

New filings:

1. Alcoa	NYCERS, TRS	<u>withdrawn</u>, company adopted proposal
2. Allegheny Energy	All NYC funds	<u>withdrawn</u>, based on existing company policy
3 Reliant Energy	All NYC funds	<u>withdrawn</u>, company adopted the proposal
4.Dana Corp.	All NYC funds	<u>withdrawn</u>, company adopted policy
5. BB & T Corp.	All NYC funds	<u>withdrawn</u>, company adopted the proposal
6. Owens-Illinois	All NYC funds	<u>withdrawn</u>, company adopted the proposal
7. Echo Star Communications	All NYC funds	filed (upcoming annual meeting)
8. Coventry Health Care	All NYC funds	<u>withdrawn</u>, company adopted the policy
9. Harrah's Entertainment	All NYC funds	<u>withdrawn</u>, company adopted the policy
10. Universal Health Services	All NYC funds	2.9% vote
11. Fischer Scientific Int'l	All NYC funds	<u>withdrawn</u>, company adopted the policy
12. Advance Auto Parts	All NYC funds	22.0%
13. Land America Financial Group	All NYC fund	<u>withdrawn</u>, company's existing EEO policy banned discrimination based on sexual orientation

14. U.S. Steel	All NYC funds	<u>withdrawn</u>, company adopted the policy
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Resubmissions:

15. Alltel	All NYC funds	<u>withdrawn</u>, company adopted the policy
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16. ExxonMobil	NYCERS	29.4%
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(c) Equality Principles—Implement non-discrimination policies for sexual orientation and gender identity based on Equality Principles.

New filings:

1. Toys R Us	All NYC funds	<u>withdrawn</u>, company adopted proposal after originally submitting a no-action request to SEC
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2. Cerner Corp.	All NYC funds	<u>withdrawn</u>, company adopted the policy
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3. Delta Airlines	All NYC funds	8.9% vote
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(d) Mac Bride Principles—Implement the MacBride Principles and agree to independent monitoring of compliance.

New filings:

1. Alberto Culver	All NYC funds	<u>withdrawn</u>, company adopted the proposal
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Resubmissions:

2. Claire’s Stores	All NYC funds	16.5% vote
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3. Crown Castle	All NYC funds	<u>withdrawn</u>, company discontinued operations in Northern Ireland
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4. Raytheon	All NYC funds	9.8% vote
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5. TeleTech Holdings	All NYC funds	4.9% vote
6. Yum Brands	All NYC funds	14.7% vote

(e) Implement ILO and UN Human Rights Norms in international operations, and allow independent monitoring of compliance.

New filings:

1. Best Buy	All NYC funds	<u>withdrawn</u>, agreement reached with company
2. General Mills	All NYC funds	<u>withdrawn</u>-- based on the company's commitment to require its suppliers to sign a letter certifying compliance with the company's labor standards; and the company becoming a "CERES Company"
3. Kimberly Clark	All NYC funds	8.5% vote
4. Bed, Bath & Beyond	All NYC funds	21.6% vote
5. DuPont	All NYC funds	7.9% vote
6. Bard (CR) Inc.	All NYC funds	28.9% vote
7. Cardiac Sciences	All NYC funds	filed, (upcoming annual meeting)
8. Cooper Industries	All NYC funds	23.2% vote
9. Digene Corp.	All NYC funds	filed (upcoming annual meeting)
10. Fluor Corp.	All NYC funds	<u>withdrawn</u>, company agreed to begin a process toward implementation, compliance and monitoring.
11. Imaging Diagnostic Systems	All NYC funds	no annual meeting as a result of a merger

12. Primus Telecommunications	All NYC funds	18.8% vote
13. Sara Lee Corporation	All NYC funds	filed (upcoming annual meeting)

Resubmissions:

14. Dillards	All NYC funds	filed (vote NA)
15. Home Depot	All NYC funds	<u>omitted</u>-- SEC concurred with company's no-action request
16. Hasbro	All NYC funds	10.2% vote
17. Men's Wearhouse	All NYC funds	<u>withdrawn</u>--proposal did not meet the vote threshold required for resubmission
18. TJX	All NYC funds	8.56%

(f) Review implementation of overseas vendor code of conduct.

Resubmission:

1. Disney	All NYC funds	8.9% vote
2. VF Corporation	NYCERS	<u>withdrawn</u>--company agreed to prepare report on its compliance efforts.

(g) Sustainability Reporting—Disclose social, environmental and economic performance by issuing an annual sustainability report.

New Filings:

1. Kroger	All NYC funds	<u>omitted</u>--SEC concurred with company's no-action request
2. Lowes	All NYC funds	<u>omitted</u>--SEC concurred with company's no-action request

3. Terex	All NYC funds	company filed a no-action request with the SEC, SEC did not concur with company's position; annual meeting postponed pending restatement of earnings
4. Burlington Resources	All NYC funds	<u>withdrawn</u> , company reached agreement with primary sponsor
5. Cooper Tire & Rubber	NYCERS	29.3% vote
<u>Resubmissions:</u>		
6. Kinder Morgan	All NYC funds	<u>withdrawn</u>--company agreed to revise its sustainability report in accordance with suggested guidelines
7. Safeway	Police, Fire, TRS, BOE	16.7% vote
8. Albertsons, Inc.	All NYC funds	<u>omitted</u> SEC concurred with company's no-action request
9. Dean Foods	All NYC funds	27.1% vote—company originally filed a no-action request with the SEC, but the SEC did not concur
10. ConAgra	All NYC funds	<u>omitted</u>, SEC concurred with company's no-action request

(h) Review business ties to the Indonesian military and issue a report to shareholders.

New Filings:

1. ExxonMobil TRS, BOE 7.6% vote

Resubmission:

2. Freeport McMoran All NYC funds 6.7 % vote

(i) Allow for an independent investigation of alleged human rights abuses at bottling facilities in Colombia.

New Filing:

(1) Coca Cola Company All NYC funds 5.4% vote

(j) Review environmental and social impact of operations in Indonesia.

New Filing:

(1) Newmont Mining All NYC funds **omitted, company filed a no-action request with the SEC, the SEC concurred with the company that it could exclude the proposal from its proxy statement; Comptroller's Office filed an appeal, but the SEC did not consider the appeal.**

(k) Review security measures taken to protect female employees at plants in Ciudad Juarez.

New Filing:

(1) Vishay Intertechnology, Inc. NYCERS **withdrawn--company had substantially implemented the proposal**

(l) Report on the feasibility of ending sales practices that limit the re-importation of prescription drugs.

New Filings:

1. Eli Lilly	NYCERS (AFSCME primary sponsor)	13.9%
2. Wyeth	NYCERS (AFSCME primary sponsor)	no-action request filed; SEC did not concur; 23.2% vote

(m) Report on efforts to develop renewable energy.

New Filing:

1. Chevron Texaco	All NYC funds	<u>withdrawn</u>—agreement reached with primary sponsor
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(n) Report on efforts to reduce carbon dioxide and other emissions.

New Filings:

1. Dominion Resources	NYCERS	8.3% vote
2. Apache	NYCERS	<u>withdrawn</u>—agreement reached with primary sponsor
3. Progress Energy	NYCERS	<u>withdrawn</u>--company agreed to prepare a report on its efforts to reduce carbon emissions

(o) Disclosure of Political Contributions

New Filing:

1. Southern Company	NYCERS	11.2% vote
2. Wal-Mart	NYCERS	9.2% vote

CORPORATE GOVERNANCE PROPOSALS

(a) Repeal the classified board and elect all directors annually.

New Filings:

1. BEA Systems	All NYC funds	67%--majority vote
2. Goodyear Tire & Rubber	All NYC funds	<u>withdrawn</u> --the Board of Directors agreed to include a binding proposal in the Company's 2005 proxy Statement providing for the annual election of Directors.
3. Icos Corp.	All NYC funds	64%--majority vote
4. Charles Schwab	All NYC funds	58 %--majority vote
5. Newell Rubbermaid	All NYC funds	77.7%--majority vote

Resubmissions:

6. Saks, Inc.	NYCERS	annual meeting postponed
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(b) Creation of a mechanism for direct communication between directors and shareholders.

New Filings:

1. Safeway, Inc.	NYCERS	3.8%
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Resubmissions:

2. Unumprovident	All NYC funds	7.9% vote
3. Unocal	All NYC funds	<u>withdrawn</u> --company adopted the policy
4. Amerada Hess	All NYC funds	<u>withdrawn</u> --company adopted the proposal

5. Kerr-McGee All NYC funds 9.4% vote

(c) Creation of an independent compensation committee.

New Filings:

1. PMC-Sierra, Inc.	All NYC funds	<u>withdrawn</u>--company adopted proposal
2. Clear Channel Communication	All NYC funds	<u>omitted</u>--SEC granted company no-action request/ Comptroller's Office appealed the SEC's decision
3. First Health Group	All NYC funds	filed/no annual meeting because of merger with Coventry Health

(d) Creation of an independent audit committee.

New Filings:

1. Electronic Data Systems	All NYC funds	<u>withdrawn</u>--company adopted the proposal
2. EMC Corp.	All NYC funds	22.2% vote

(e) Establish a Majority Vote protocol.

New Filings:

1. Baker Hughes	All NYC funds	49.0% vote
2. Calpine Corp.	All NYC funds	<u>withdrawn</u>--company redeemed poison pill and presented a management proposal to declassify the board for a vote of the shareholders

3. Covance, Inc.	All NYC funds	<u>withdrawn</u>--company adopted the proposal
4. Delphi Corp.	All NYC funds	company filed for bankruptcy protection
5. Honeywell Int'l	All NYC funds	<u>withdrawn</u>--proposal was pre-empted by another proposal on the same subject matter
6. May Dep't Stores	All NYC funds	<u>withdrawn</u>--company merged with Federated Dept. Stores
7. Saks Inc.	Police, TRS, Fire, BOE	<u>withdrawn</u>--company adopted proposal
8. VF Corporation	Police, TRS, Fire, BOE	<u>withdrawn</u>--company adopted proposal
9. Visteon Corporation	All NYC funds	<u>withdrawn</u>--company adopted a policy

Resubmission:

10. Steris Corp.	All NYC funds	<u>withdrawn</u>--company adopted the "classified board" proposal which won majority vote in 2003, and a process for Board review of all shareholder proposals, including those that are supported by majority votes.
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(f) Shareholder ratification of the appointment of the independent auditors.

New Filings:

1. Advanced Neuromodulation Systems	NYCERS, Police	<u>withdrawn</u>--company adopted the proposal
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2. Alcoa, Inc.	Police, Fire, BOE	<u>withdrawn</u>--company had adopted policy prior to receiving the proposal
3. Global Industries	All NYC funds	<u>withdrawn</u>--company adopted the proposal
4. Unisys Corp.	All NYC funds	<u>withdrawn</u>--company confirmed that it will seek shareholder ratification of the independent auditor at the 2005 annual meeting.
5. WebMD Corp.	All NYC funds	<u>withdrawn</u>--company adopted proposal

(g) Performance-based long-term incentive compensation.

New Filings:

1. Abercrombie & Fitch	All NYC funds	<u>omitted</u>-- SEC concurred with company's no-action request
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(h) Proxy Access

New Filings:

1. Halliburton	NYCERS, TRS (AFSCME primary sponsor, CT co-sponsor)	<u>omitted</u>--SEC concurred with company's "no action" request
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