

THE NEW YORK CITY PENSION FUNDS' 2006 SHAREHOLDER PROPOSALS

Executive Summary

An Overview of the 2006 Proxy Season

In the 2006 proxy season, shareholders considered and voted on approximately 180 shareholder proposals on social and environmental issues, and some 400 proposals calling for board adoption of a wide range of corporate governance reforms at the annual meetings of public companies. The sponsors of these proposals included public pension funds, Taft-Hartley union funds, socially-responsible investment (SRI) funds, pension funds of religious organizations affiliated with the Interfaith Center on Corporate Responsibility (ICCR), environmental organizations, an animal rights organization, and individual shareholders. Proposals covered various initiatives, including the following requests to companies: issue annual sustainability reports on environmental and social performance in accordance with the reporting guidelines of the Global Reporting Initiative (GRI); report on compliance with international human rights standards; adopt stronger standards of performance-based executive compensation; adopt stronger criteria of director independence; establish a majority vote standard in director elections; and disclose and monitor political contributions.

The average shareholder support for social and environmental proposals increased in 2006 over the 2005 average. Institutional Shareholder Services (ISS) reported that 27 percent of shareholder proposals on social issues that came to a vote through June 30, 2006 were supported by more than 15 percent of the shares voted, compared to 15 percent of similar proposals that came to vote in the same period in 2004 and 2005. Approximately 97 proposals were withdrawn, primarily as a result of successful dialogue between shareholder proponents and corporate management. And long-standing corporate governance proposals, such as the proposal to repeal the classified board structure and elect directors annually, and the proposal to eliminate supermajority vote requirements, continued to receive strong shareholder support, winning majority votes at a number of companies. In the first six months of 2006, the average shareholder vote for the proposal to repeal the classified board at forty-two companies was 66.8 percent, compared with 60.5 percent at forty-six companies during the same period in 2005, according to an ISS report. A relatively new proposal, one that asked companies to adopt a majority vote standard for director elections, gained strong momentum, winning majority votes and resulting in significant numbers of board adoptions. ISS reported that of the more than 150 majority-vote proposals filed through mid-August 2006, at least 35 were withdrawn, primarily because companies agreed to institute a majority vote standard in director elections, with an unelected director resignation policy.

Summary of Proposals Submitted by New York City Comptroller, William C. Thompson, Jr., on behalf of the New York City Pension Funds

Corporate Governance Proposals

In 2006, the New York City pension funds, collectively, continued as the leader among public pension funds, both in terms of the number of issues and companies pursued. On behalf of the funds' Boards of Trustees, New York City Comptroller, William C. Thompson, Jr. submitted shareholder proposals seeking nine specific corporate governance reforms to twenty companies. The proposals sought the following reforms: that corporate boards of directors adopt stronger criteria of director independence for members of their audit and compensation committees; that boards of directors establish a board protocol to effectively and fairly address shareholder proposals that win majority votes; that in the event a company has to restate its financial report, its board of directors would review and recoup awards and bonuses that were granted to executives based on incorrect data; that the classified structure of corporate boards of directors is repealed and all directors are elected annually; that a significant portion of future stock option grants to senior executives are performance-based; that corporate boards establish a mechanism for direct communications between directors and shareholders; that the selection of a company's independent, outside auditors is presented to the shareholders for ratification; and that companies amend their by-laws to establish a majority vote standard in director elections.

Significant Results

Two companies, Unumprovident Corp. and Newell Rubbermaid, adopted the proposal which requested board adoption of a protocol for acting on shareholder proposals that win majority votes. The proposal was supported by 36.6% and 37.4% at ICOS Corp. and BEA Systems, respectively.

The proposal to repeal the classified board structure and establish annual elections of directors was adopted at Level 3 Communications; and won majority votes of 79.5%, 72.7%, 83%, 84% and 75% at Convergys Corp., ICOS Corp., Newell Rubbermaid, King Pharmaceutical, and BEA Systems, respectively.

One company, Millennium Pharmaceuticals, adopted the proposal which called for a significant portion of future stock option grants to senior executives to be performance-based.

Janus Capital Group and Agilent Technologies agreed to amend their by-law to establish a majority vote standard in director elections.

Social and Environmental Responsibility Proposals & Significant Results

In the category of corporate social and environmental responsibility ("sustainable governance" issues), New York City Comptroller, William C. Thompson, Jr., on behalf of the Boards of Trustees of the New York City pension funds, submitted proposals to

seventy-two companies on thirteen specific issues. The proposals included a request that companies implement the International Labor Organization (ILO) Human Rights Conventions and UN Human Rights Norms in their international operations, and allow for independent monitoring of compliance. This proposal received an unprecedented high level of shareholder support-- 49.8% of the total votes cast for and against-- at Lear Corp.

A proposal that requested companies to issue an annual sustainability report was adopted by H.J Heinz and National Semiconductor; and won unprecedented shareholder support of 48.4% of the total votes cast for and against at TEREX, and 33.9% at Dean Foods.

The funds' proposal which called for the adoption of an explicit prohibition against discrimination based on sexual orientation was adopted by GenCorp Inc., Paccar, Baldor Electric, General Dynamics, and Parker Hannifin. A related proposal, which called for the implementation of non-discrimination policies for gender identity based on the Equality Principles—10 inclusive, non-discrimination principles that, among other provisions, call for equal employee benefits irrespective of sexual orientation and gender identity, was adopted by three companies—DTE Energy, Wendy's Int'l, and ONEOK.

As fiduciaries of the New York City pension funds, New York City Comptroller Thompson and the funds' boards of trustees are seeking to understand how the risks associated with global warming—physical risks, regulatory risks, competitive risks, and reputational risks--will impact companies in which the funds are invested, and how companies are addressing this growing, global concern.

According to the latest Vistage Confidence Index, a leading indicator of small and medium business economic trends, about two in three CEOs of U.S. small and medium-sized companies have expressed concern about the prospects of global warming. The findings come amidst heightened concern by the business community over the efforts of states to enact stricter regulations on greenhouse emissions. California recently passed its Global Warming Solutions Act requiring major industrial producers of greenhouse gases to reduce emissions 25% by 2020—the most stringent legislation in the U.S. to address global warming. However, the Carbon Disclosure Project's (CDP) 2006 Report (CDP4), which summarizes the analysis of responses by FT500 companies to a CDP questionnaire, which sought to determine how companies are engaging with the climate change issue and what are the likely commercial implications, found that less than half (48%) of companies that consider climate change to present commercial risks and/or opportunities to their business have implemented a greenhouse gases (GHG) reduction program.

Seeking to focus the management and boards of companies on the issue of climate change risks, one proposal called on 8 companies to report on how they are responding to rising regulatory, competitive, public pressure to significantly reduce carbon dioxide and other emissions from their existing and proposed power plant operations. Five companies: Great Plains Energy (Kansas City Power & Light), Peabody Energy, MGE Energy, Alliant Energy, and WPS Resources Corp., agreed to prepare and issue the report

and to collaborate with the Comptroller's Office and Ceres in developing the outline of the report.

In addition, Comptroller Thompson has played a leading role in the efforts of the Investor Network on Climate Risk (INCR), whose membership now includes more than 50 institutional investors with more than \$3 trillion of assets. INCR has taken steps to pressure Wall Street firms, securities regulators and companies to provide deeper analysis and disclosure on the business risks and opportunities of climate change. In June 2006, Comptroller Thompson joined with 27 members of INCR in a letter to SEC Chairman Cox expressing concern that climate change poses material risks to companies in which INCR members are invested, and that those risks should be disclosed as a matter of routine corporate financial reporting to the SEC. On September 20, 2006, the New York City Comptroller's Office participated in a meeting between INCR members and SEC Commissioner Roel Campos in an effort to push the SEC towards the adoption of an SEC rule that would require companies to disclose climate change risks in their financial reports. Commissioner Campos expressed deep interest in the issue and offered his active participation in advancing the initiative.

A Decision by the SEC Division of Corporation Finance--An Issue of Concern

In the 2006 proxy season, the SEC's Division of Corporation Finance agreed with Rite-Aid Corporation's argument that the New York City pension funds' proposal, which requested an amendment of the company's governance documents to require shareholder ratification of the selection of the company's independent auditors, could be excluded from the company's proxy statement under SEC Rule 14a-8(i)(7) that allows a company to omit a shareholder proposal that deals with a matter relating to the company's ordinary business operations.

Despite compelling arguments presented by the New York City Comptroller's Office that auditor independence is not a matter of ordinary business in light of continuing public and governmental concern over maintaining auditor independence and protecting the integrity of corporate financial statements, the SEC's Division of Corporation Finance (the "Staff") agreed with the company's argument that the proposal related to ordinary business operation and allowed its exclusion under Rule 14a-8(i) (7).

The Comptroller's Office subsequently submitted an appeal to the Secretary of the SEC requesting that the SEC Commission reverse the "no-action" decision of the Division of Corporation Finance. However, the Staff did not allow the appeal to be brought before the Commission, effectively blocking the appeal.

An encouraging development occurred at the Council of Institutional Investors Fall 2006 meeting in Washington, DC. The Council's Policy Committee brought forward, for adoption by the Council's membership, a proposed new Council governance policy that provides: "Audit committee charters should provide for annual shareowner votes on the board's choice of independent, external auditor." The five New York City pension funds supported the policy. In addition, the Comptroller's Office, along with other institutional investors, is seeking a meeting with the SEC Division of Corporation Finance to discuss

this issue, and other similar decisions made by the Division under SEC Rule 14a-8 (i)(7), that allowed companies to exclude important shareholder proposals from their proxy statements in the 2006 proxy season.

Proposals and Results by Company

Corporate Governance Proposals

FOCUS COMPANIES:

STATUS/ VOTE

Proposal# 1: Establish an Independent Audit Committee

Companies:

Fund Sponsor(s)

Status/Result

Resubmission:

- | | | |
|--------------|---------------|-----------------------------|
| 1. EMC Corp. | All NYC Funds | 25% vote
(22.2% in 2005) |
|--------------|---------------|-----------------------------|

Proposal # 2: Establish a Majority Vote Protocol

Companies:

Fund Sponsor(s)

Status/Result

New Filings:

- | | | |
|------------------------|---------------|----------------------------|
| 1. ICOS Corp. | Fire, Police | 36.6% vote |
| 2. Unumprovident Corp. | All NYC Funds | Adopted --withdrawn |
| 3. Newell Rubbermaid | Police, Fire | Adopted —withdrawn |
| 4. Bea Systems | Police, Fire | 37.4 % vote |

Proposal #3: Review and recoup awards and bonuses in the event of a restatement of financial results

Companies:

Fund Sponsor(s)

Status/Result

New Filings:

- | | | |
|------------------------|---------------|--|
| 1. Dana Corp. | All NYC Funds | Adopted –withdrawn |
| 2. Mercury Interactive | All NYC Funds | filed
(Subsequently acquired by
Hewlett Packard) |

Proposal # 4: Repeal the classified board and elect all directors annually

<u>Companies:</u> <u>Resubmissions:</u>	<u>Fund Sponsor(s)</u>	<u>Status/Result</u>
1. Bea Systems	NYCERS, TRS, BOE	75 % majority vote (67% in 2005)
2. ICOS Corp	NYCERS, TRS, BOE	72.7% majority vote (64% in 2005)
3. Newell Rubbermaid	NYCERS, TRS, BOE	83% majority vote (77.7% in 2005)

New Filings:

4. Convergys Corp.	NYCERS, BOE	79.5% majority vote
5. King Pharmaceuticals	All NYC Funds	84% majority vote
6. Level 3 Communications, Inc.	NYCERS, Police, Fire, BOE	Adopted-withdrawn

Proposal # 5: Adopt a policy requiring that a significant portion of future stock option grants to senior executives shall be performance-based

<u>Companies:</u> <u>New Filings:</u>	<u>Fund Sponsor(s)</u>	<u>Status/Result</u>
1. Millennium Pharmaceuticals	All NYC Funds	Adopted—withdrawn
2. Cardinal Health	All NYC Funds	42.34% vote

Proposal # 6: Establish an Independent Compensation Committee
(Modified proposal)

<u>Companies:</u> <u>Resubmissions:</u>	<u>Fund Sponsor(s)</u>	<u>Status/Result</u>
1. Clear Channel Communications	All NYC Funds	company sought SEC concurrence to omit the proposal from its proxy statement; SEC did not agree with the company. The proposal was supported by 42.3% of the votes cast at the company's annual meeting. (SEC allowed the company to omit the 2005 proposal)

Proposal #7: Amend company by-law to establish a majority vote standard in elections to the board of directors

<u>Companies:</u> <u>New Filings:</u>	<u>Fund Sponsor(s)</u>	<u>Status/Result</u>
1. Teradyne Inc.	All NYC Funds (co-sponsored with United Brotherhood of Carpenters--the primary sponsor.)	41.2% vote
2. Janus Capital Group	All NYC Funds	Adopted --withdrawn
3. Agilent Technologies	All NYC Funds	Adopted --withdrawn

Proposal #8: Establish a mechanism for direct communications between directors and shareholders

<u>Companies:</u> <u>Resubmissions:</u>	<u>Fund Sponsor(s)</u>	<u>Status/Result</u>
1. Kerr McGee Corp.	All NYC Funds	6.3% vote (9.4% in 2005)

2. Safeway Inc.	NYCERS	6.8% vote (3.8% in 2005)
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Proposal #9: Shareholder ratification of the independent auditor

<u>Companies:</u> <u>New Filings:</u>	<u>Fund Sponsor(s)</u>	<u>Status/Result</u>
1. Rite Aide Corp.	All NYC Funds	Omitted in response to SEC no-action request
2. Linens'n Things	All NYC Funds	Withdrawn—shares no longer listed on the NYSE as a result of a merger

Corporate Social & Environmental Responsibility Proposals (Sustainable Governance Issues)

FOCUS COMPANIES

STATUS/VOTE

Proposal #1: Implement ILO and UN Human Rights Norms in international operations, and allow for independent monitoring of compliance

<u>Companies:</u> <u>Resubmissions:</u>	<u>Fund Sponsor(s)</u>	<u>Status/Result</u>
1. Kimberly Clark	All NYC Funds	8.5 % vote (8.5% in 2005)
2. Bed, Bath & Beyond	All NYC Funds	25.4% vote (21.6% in 2005)
3. Dupont	All NYC Funds	Withdrawn—did not meet vote threshold required for resubmission
4. Bard (CR)	All NYC Funds	32.9% vote (28.9% in 2005)
5. Cooper Industries	NYCERS, TRS, Fire	6.8 % vote (23.2% in 2005)
6 Hasbro	All NYC Funds	9.8 % vote (10.2% in 2005)
<u>New Filings:</u>		
1. Altria	All NYC Funds	6.2% vote
2. Lear Corp.	All NYC Funds	49.8% vote
3. Goodyear	All NYC Funds	Agreement —withdrawn
4. Ford Motor Company	All NYC Funds	Withdrawn—company verified pre-existing policy/procedures
5. Mattel Inc.	All NYC Funds	Withdrawn—company took substantial action in response to proposal

6. Timberland	All NYC Funds	Withdrawn—company verified pre-existing policy and procedures
7. Limited Brands	All NYC Funds	Agreement —withdrawn
8. Chico's	Police, Fire, BOE	Withdrawn—company verified pre-existing policy/procedures
9. Dell Inc.	All NYC Funds	8.3 % vote
10. Archer Daniels Midland	All NYC Funds	26.6% vote

Proposal #2: Sustainability Reporting—Disclose social, environmental and economic performance by issuing an annual sustainability report

Companies:
Resubmissions:

	<u>Fund Sponsor(s)</u>	<u>Status/Result</u>
1. Kinder Morgan	All NYC Funds	Withdrawn—company verified pre-existing policy/procedures
2. Safeway, Inc.	TRS, Police, Fire, BOE	27.1 % vote (16.7% in 2005)
3. ConAgra	All NYC Funds	Withdrawn—company submitted a no-action request to the SEC; proposal was withdrawn based on advice of Law Department
4. TEREX	All NYC Funds	48.4 % vote (2005 annual meeting was postponed due to company having to restate its earnings)
5. Dean Foods	All NYC Funds	33.9 % vote (27.1% in 2005)

4. Dollar Thrifty Automotive Group	All NYC Funds	Withdrawn
5. BE Aerospace	All NYC Funds	10.5% vote
6. Sanmina- SCI Corp.	All NYC Funds	Withdrawn —proposal adopted

Proposal #4: Adopt an explicit prohibition of discrimination based on sexual Orientation

Companies:
Resubmissions:

Fund Sponsor(s)

Status/Result

1. ExxonMobil	NYCERS, Fire	34.6% vote (29.4% in 2005)
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New Filings:

1. Paccar	All NYC Funds	Adopted —withdrawn
2. Baldor Electric	All NYC Funds	Adopted —withdrawn
3. Fortune Brands	All NYC Funds	Withdrawn—company verified pre-existing policy
4. General Dynamics	NYCERS, TRS	Adopted —withdrawn
5. Convergys Corp	Police, TRS, Fire	Withdrawn—company verified pre-existing policy
6. Computer Sciences Corp	All NYC Funds	Withdrawn—company verified pre-existing policy
7. Parker Hannifin	All NYC Funds	Adopted --withdrawn
8. Micron Technology	NYCERS	The shareholder vote was not available when this report was being prepared.

Proposal #5: Equality Principles—Implement non-discrimination policies for sexual orientation and gender identity based on the Equality Principles

<u>Companies:</u>	<u>Fund Sponsor(s)</u>	<u>Status/Result</u>
<u>New Filings:</u>		
1. GenCorp Inc.	All NYC Funds	Adopted —withdrawn
2. DTE Energy	All NYC Funds	Adopted —withdrawn
3. Robert Half Int’l	All NYC Funds	18.7% vote
4. Wendy’s Int’l	All NYC Funds	Adopted —withdrawn
5. ONEOK Inc.	All NYC Funds	Adopted —withdrawn

Proposal #6: Board review and report on adherence by suppliers in China to Company’s corporate code of conduct, to the provisions of the Chinese government’s Labor Law, and to core ILO conventions

<u>Companies:</u>	<u>Fund Sponsor(s)</u>	<u>Status/Result</u>
<u>Resubmission:</u>		
1. The Walt Disney Co.	All NYC Funds	9.1 % vote (8.9% in 2005)

Proposal #7: Report on efforts to reduce carbon dioxide and other emissions from existing and proposed power plants

<u>Companies:</u>	<u>Fund Sponsor(s)</u>	<u>Status/Result</u>
<u>Resubmission:</u>		
1. Dominion Resources	Trillium Asset (primary filer)	22.6 % vote (8.3% in 2005)

<u>New Filings:</u>		
2. Sempra Energy	All NYC Funds	Omitted—SEC response to company’s no-action request

3. Great Plains Energy (Kansas City Power & Light)	All NYC Funds	Adopted —withdrawn
4. Peabody Energy	All NYC Funds	Adopted --withdrawn
5. MGE Energy	All NYC Funds	Adopted —withdrawn
6. Vintage Petroleum	All NYC Funds	Company was acquired by Occidental Petroleum
7. Alliant Energy	All NYC Funds	Adopted —withdrawn
8. WPS Resources Corp	All NYC Funds	Adopted —withdrawn
9. Devon Energy	All NYC Funds, (Domini primary filer)	Withdrawn

**Proposal #8: Establish a special committee of independent directors to oversee the company’s sponsorship of an independent delegation of inquiry to Colombia to examine charges of collusion in anti-union violence that have been made against officials of the company’s bottling plants in Colombia; and charge the delegation with preparing and presenting to the special committee and the Board a report on its findings, which will be made available to the shareholders
(Modified proposal)**

<u>Company:</u>	<u>Fund Sponsor(s)</u>	<u>Status/Result</u>
<u>Resubmission:</u> 1. The Coca-Cola Company	All NYC Funds	5.7 % vote (5.4% in 2005)

Proposal #9: Disclosure of political contributions

<u>Companies:</u>	<u>Fund Sponsor(s)</u>	<u>Status/Result</u>
<u>New Filings:</u> 1. AmSouth Bancorporation	All NYC Funds	25.2% vote
2. Chevron Texaco	All NYC Funds	13.2 % vote
3. Union Pacific Corp.	All NYC Funds	27.7 % vote

4. Cinergy	All NYC Funds	Withdrawn—merged with Duke Energy
5. Wal-Mart	All NYC Funds (Teamsters primary filer)	11.5 % vote
6. Southern Company	Police, Fire, BOE (Trillium primary filer)	withdrawn

Proposal #9: Suspend Ties to Indonesian Military

<u>Companies:</u> <u>Resubmission:</u>	<u>Fund Sponsor(s)</u>	<u>Status/Result</u>
1. Freeport McMoran	All NYC Funds	6.2% vote (6.7% in 2005)

Proposal #10: Review environmental and social impacts of operations in Indonesia

<u>Companies:</u> <u>Resubmission:</u>	<u>Fund Sponsor(s)</u>	<u>Status/Result</u>
1. Newmont Mining	All NYC Funds	Omitted—SEC response to company’s no-action request

Proposal # 11: Report to the shareholders any new initiatives instituted by management to address specific health, environmental and social concerns of survivors in Bophal, India.

<u>Companies:</u> <u>New Filing:</u>	<u>Fund Sponsor(s)</u>	<u>Status/Result</u>
1. The Dow Chemical Company	Fire	6.7 % vote

Proposal # 12: Review and report on company’s security arrangements with the Indonesian government and security forces.

<u>Companies:</u> <u>Resubmission:</u>	<u>Fund Sponsor(s)</u>	<u>Status/Result</u>
1. ExxonMobil	TRS, Police , BOE	Agreement —company committed to conduct review and issue report (7.6% vote in 2005)

Proposal #13: Establish a committee of the Board of Directors to review the company’s operations in Iran with particular reference to potential financial and reputational risks posed by such operations.

<u>Companies:</u> <u>New Filing:</u>	<u>Fund Sponsor(s)</u>	<u>Status/Result</u>
1. Foster Wheeler	NYCERS, Fire, BOE	Adopted —withdrawn

The Proxy Committees of the New York City Pension Funds/Systems

The Board of Trustees of each of the five New York City Pension Funds/Retirement Systems has established a Proxy Committee comprised of Trustees, with authorization to approve or disapprove, on behalf of the Board, the New York City Comptroller's recommendations of shareholder proposals and "focus" companies. Each year, the New York City Comptroller, as the investment adviser to the pension funds and retirement systems, develops and presents for approval by the Proxy Committees a list of companies (the "focus list") and appropriate shareholder proposals.

Members of the Proxy Committees:

New York City Board of Education Retirement System:

Martine G. Guerrier, Representative of the Brooklyn Borough President

Thomas Malanga, Pension Chairman
International Union of Operating Engineers – Local 891

Milagros Rodriguez, Executive Board Member
Local 372, District Council 37

New York City Employees' Retirement System:

Martha Stark
Chairperson
Commissioner of Finance
Represented by: Diane Bratcher
Special Assistant to the Commissioner

Betsy Gotbaum
Public Advocate
Represented by: Lawrence Schimmel
Director of Policy and Research

Carroll Haynes
President, Local 237
International Brotherhood of Teamsters
Represented by: Patricia Stryker
Director of Political Action & Legislation

Lillian Roberts
Executive Director
District Council 37
Represented by: Michael Musuraca
Assistant Director, Research & Negotiations

New York City Fire Department Pension Fund:

Nicholas Scoppetta, Commissioner
Represented by: Mylan Denerstein
Deputy Commissioner, Legal Affairs

Robert Straub, Treasurer
Uniformed Firefighter's Association of Greater New York

Nicholas J. Visconti
Chief Representative
Uniformed Fire Officers Association

New York City Police Pension Fund:

Commissioner Raymond W. Kelly
Represented by Joey Kara Koch
Assistant Special Counsel for Mayor Michael R. Bloomberg

Captain John Driscoll
President
Captains Endowment Association

P.O Patrick Lynch
President
PBA
Represented by P.O. Joseph Alejandro
Treasurer, PBA

New York City Teachers' Retirement System:

Martha Stark
Chairperson
Commissioner of Finance
Represented by: Diane Bratcher
Special Assistant to the Commissioner

Sandra March
United Federation of Teachers

William C. Thompson, Jr., Comptroller, City of New York
Represented by: Kenneth B. Sylvester
Assistant Comptroller for Pension Policy