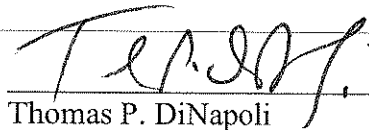
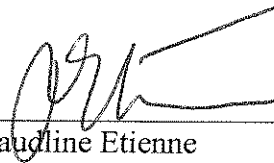

GENERAL INVESTMENT POLICIES
FOR
THE NEW YORK STATE COMMON RETIREMENT FUND

December 15, 2010



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INTRODUCTION

The New York State and Local Retirement System (the "System") administers service retirement, disability retirement and death benefits for members employed by the state and local governments and other participating employers. The System comprises the New York State and local Employees' Retirement System and the New York State and local Police and Fire Retirement System. The assets of the System are held in the Common Retirement Fund ("CRF") and managed by the Division of Pension Investment and Cash Management ("PICM") within the Office of the State Comptroller ("OSC"). The Comptroller is the administrative head of the System and sole trustee of the CRF.

PURPOSE AND DESIGN

These General Investment Policies are meant to provide a framework for the operation of the CRF and reflect the strategy of the Comptroller, PICM staff and advice of the Comptroller's Investment Advisory Committee and Real Estate Advisory Committee. Specific policies and procedures are discussed in the detailed policy, procedures, reporting and control guidelines for each of the individual investment categories. The primary objective of these policies is to create the foundation for an investment program that (1) taking prudent risk and (2) in conjunction with a sound, sustained contribution program funds the System's benefit obligations as they become due over time.

These General Investment Policies are not intended to represent an absolute limit on the type of investments that can be made by the Comptroller or considered by staff. In many instances, investments that fall outside of the specific categories outlined in this document may well be appropriate for inclusion in one or more of the CRF's portfolios. The Comptroller explicitly reserves the right to authorize other legally allowable investments as he deems consistent with his or her responsibilities as a fiduciary.

CHANGES TO POLICIES

These General Investment Policies are periodically reexamined for their appropriateness given the existing legal and investment environment as well as the actuarial assessment of the System's liabilities. As these variables change, these General Investment Policies will be revised to reflect current conditions. These General Investment Policies will also be reviewed by staff upon the completion of each asset-liability modeling study or asset allocation study.

ADMINISTRATIVE AND OPERATIONAL BACKGROUND

The Comptroller, as sole trustee of the CRF and as administrative head of the System, is responsible for the investment of all CRF assets and is bound by the prudent expert standard and the exclusive benefit provisions as stated in the Rules and Regulations of the New York State Insurance

Department (the "Insurance Regulations") (11 NYCRR subpart 136). Section 136-2.3 of the Insurance Regulations states in part:

The Comptroller is a fiduciary and as such shall act solely in the interests of the members and beneficiaries of the retirement system. At all times the Comptroller shall perform his or her responsibilities with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

The fiduciary duty standards in the Insurance Regulations are similar to the ERISA fiduciary duty standards in Section 404(a)(1) of the Employee Retirement Income Security Act of 1974 ("ERISA"). As a governmental plan within the meaning of section 3 (32) of ERISA, the CRF is not subject to ERISA. However, as a matter of policy, the CRF voluntarily makes analogies to ERISA where relevant, since the prudent expert and exclusive benefit standards contained within ERISA and the Insurance Regulations are generally consistent with those adopted here. In addition, the CRF may draw upon common law principles of trust and fiduciary duty in analyzing investments as well as current best practice in institutional fund management. In addition, compliance with the "exclusive benefit" rule assures the System's continued status as a tax-exempt entity.

Consistent with the prudent expert standard and exclusive benefit provisions contained in the Insurance Regulations, the Comptroller is permitted to invest the assets of the CRF in specific types of investments enumerated in Section 235 of the State Banking Law and several sections of the State Retirement and Social Security Law (RSSL), including Sections 13, 313 and 177. These statutory sections also contain limitations on the amount of specific investments the CRF may hold. In addition to the foregoing, Section 177(9) of the RSSL contains a "basket" provision that currently provides that up to 25% of the CRF's assets may be invested in investments not specifically authorized by any other statute (the "Basket Clause"). In making investments under Section 177(9), the Comptroller is subject to specific prudent expert and exclusive benefit provisions contained in Section 177(9), which are similar to those contained in the Insurance Regulations. Subject to compliance with the foregoing, investments made under Section 177(9) must, to the extent reasonably possible, benefit the overall economic health of the State.

ROLES OF COMPTROLLER, STAFF, ADVISORS, ETC.

Comptroller

The Comptroller, as sole trustee for the CRF, is responsible for the investment of all CRF assets. The Comptroller implements investment policy with the assistance of PICM staff. The Comptroller appoints a Deputy Comptroller to oversee PICM operations, manage staff and supervise investments and empowers the Deputy Comptroller with the ability to buy and sell securities on behalf of the Comptroller and to execute all agreements, instruments, documents and papers with the like power and effect as if the Comptroller has executed these documents in the performance of his or her statutory duties as Comptroller of the State of New York.

The Comptroller utilizes the advice of experts from various investment and investment related disciplines in the formulation of CRF and System policies. To this end, the Comptroller has appointed the following committees:

- The Investment Advisory Committee (“IAC”), appointed by the Comptroller pursuant to RSSL Section 423, reviews CRF investment activity and performance on a periodic basis and advises the Comptroller on asset allocation, the relationship between the System’s liabilities, assets and investment strategy, asset class strategy and general investment issues.
- The Real Estate Advisory Committee (“REAC”), appointed by the Comptroller with the consent of the IAC pursuant to RSSL Section 423, reviews and approves programmatic and direct commercial mortgage investments and equity real estate investments. In the event the REAC disapproves a proposed mortgage or real estate investment, such investment shall not be made. The REAC also advises the Comptroller on real estate investment policies generally.
- The Actuarial Advisory Committee advises the Comptroller on the reasonableness of the System’s actuarial assumptions, as well as the methodology used in the valuations of assets and liabilities.
- The Advisory Council for the Retirement Systems advises and makes recommendations to the Comptroller on the formulation of policies in relation to the administration and management of the Systems.
- The Audit Committee, established pursuant to Section 136-2.4(e) of the Insurance Regulations, reviews and reports to the Comptroller on the annual audit process related to the System and the CRF and on the Comprehensive Annual Financial Report.

Staff

Investment staff exercises fiduciary responsibilities in managing investments and implementing investment policy. Staff also oversees and monitors Consultants and Investment Managers (as defined below).

Consultants

The Comptroller employs the services of external advisors and/or consultants (“Consultants”) for various purposes, including asset allocation studies, actuarial valuations, investment strategy development, Investment Manager selection, investment opportunity identification, evaluation and due diligence, performance reviews and specialized expertise.

Each Consultant functions under a written contract that defines its duties and responsibilities. Each Consultant must agree to act as a fiduciary to the CRF. Consultants are required to adhere to all the requirements detailed in their consulting agreements.

CRF staff will choose among Consultants based on the Consultant's experience, specific knowledge of a potential investment, specific knowledge of an investment sector, amount of current activity, and other relevant factors. At least once every four years, the Fund will review the current group of Consultants to the CRF and make a written report to the Comptroller as to the adequacy of the arrangements and/or suggestions for adjusting the mix.

In employing Consultants, the CRF will follow the procedures set forth in any current CRF policies and procedures relating to the selection of Consultants.

Investment Managers

CRF may also retain external investment managers to invest assets in accordance with the investment objectives and policies set forth in these General Investment Policies ("Investment Managers"). A Consultant may be used to help select external Investment Managers.

The duties, responsibilities and level of investment discretion of each Investment Manager will be defined under a written contract with such Investment Manager. Each Investment Manager must agree to act as a fiduciary to the CRF. In cases where Investment Managers are utilized, CRF staff, with the assistance of its Consultant(s), is responsible for the oversight, goal setting, performance review and adherence to policies and procedures of such Investment Managers.

External Investment Managers are selected based upon investment style and strategy, organizational strength and depth, and fit within the overall portfolio of CRF.

In retaining Investment Managers, the CRF will follow the procedures set forth in any current CRF policies and procedures related to the selection of Investment Managers.

Custodian

The major portion of the CRF's assets is held in a master custody relationship with a bank located in New York City. The custodian is responsible for the safekeeping of assets, the settlement of investment transactions, the collection of income and associated record keeping and reporting. The CRF may also retain third parties to assist in administrative matters.

Other

The System and the CRF are audited yearly by an independent CPA firm and reviewed every five years by the New York State Insurance Department. Pursuant to Section 136-2.4(g)(6) of the Insurance Regulations, the CRF is subject to a fiduciary audit and conflict of interest review every three years by a qualified unaffiliated person. In addition, the CRF is subject to periodic reviews and audits conducted by the OSC Division of Internal Audit.

ETHICAL STANDARDS

The OSC is committed to the highest professional and ethical standards of conduct. This commitment is set forth in the Comptroller's Executive Order on Certain Ethics Principles, which governs all OSC employees, including those working in PICM. In addition, PICM staff is covered by the Code of Ethics for State officers and employees set forth in the Public Officers Law. Mandatory ethics training is provided to all OSC employees, including PICM staff. Moreover, PICM staff receives additional ethics training customized specifically for PICM.

The Comptroller has also adopted a Code of Ethics setting forth standards of conduct applicable to members of the Advisory Council and Advisory Committees to the CRF appointed by the Comptroller. Committee members must acknowledge receipt of the Code and shall be bound by its provisions. Committee members receive training on the Code, as well as on related ethics and fiduciary principles. In addition, members of two of the committees, REAC and IAC, are covered by a Financial Disclosure Policy, and are required to annual an annual statement of financial disclosure.

The Comptroller has also issued an Executive Order adopting a Code of Conduct for the System and the CRF. The Code of Conduct establishes standards that apply to the conduct of the business of the System and the Fund. It applies to the Comptroller (as administrative head of the System and as sole trustee of the Fund), the officers and employees of the OSC with responsibility for matters relating to the System or the Fund, the investment managers and consultants or advisors engaged by the Fund, and the members of the Advisory Council and Committees established by law, regulation or the Comptroller.

In addition to setting forth certain prohibited transactions, the Code of Conduct requires that the System and the Fund be managed in accordance with the highest ethical, professional and conflict of interest standards and maintain a high level of operational transparency. It further requires that the System and the Fund operate under a strong governance framework with a rigorous system of internal controls, and be managed in the most efficient and effective manner possible. All actions on behalf of the System and the Fund shall be for the sole benefit of the System's members, retirees and beneficiaries.

In order to further preserve the independence and integrity of the CRF, the Comptroller has adopted Placement Agent Policies and Procedures designed to prevent conflicts of interest or the appearance of conflicts of interest in CRF's investment decision-making process. All Investment Managers must comply with these Policies and Procedures, which prohibit the Fund directly or indirectly from engaging, hiring, investing with, or committing to, an Investment Manager that is using the services of a placement agent, registered lobbyist or other intermediary to assist in obtaining investments by the Fund, or otherwise doing business with the Fund, whether compensated on a flat fee, a contingent fee, or any other basis.

Additionally, in an effort to ensure that investment decisions are made for the sole benefit of the CRF's participants and beneficiaries, the Comptroller has adopted an Executive Order and Interim Policy on Political Contribution which prohibits the Fund from doing business with any

investment adviser who has made a political contribution to the State Comptroller or a candidate for State Comptroller.

Pursuant to the Insurance Regulations, investment managers and consultants or advisors must promptly disclose to the Fund in writing any conflict of interest the investment manager or consultant or advisor may have which could reasonably be expected to impair the investment manager's, or consultant or advisor's ability to render unbiased and objective advice. The Insurance Department regulations further require investment managers and consultants to sign an acknowledgment annually which confirms they are in compliance with this standard.

OSC seeks the best available consultants and when possible uses consultants that do not manage assets on behalf of the Fund. When it is in the best interest of the Fund to choose a consultant that also manages assets, CRF has implemented procedures to reduce potential conflicts or minimize the likelihood that conflicts will occur. For example, the CRF may use an independent Consultant to assist with the search process, to recommend additional Investment Manager candidates and to make a selection recommendation. The CRF may request review by the IAC or the REAC, as appropriate. In addition, the CRF may maintain a "pool" of pre-qualified consultants for special project work and may separate the manager selection and monitoring roles from generalist, strategic advice roles. When periodically reviewing the CRF's current group of Consultants, the IAC will take into account potential conflicts of interest when making suggestions for adjusting the mix.

Finally, staff is provided with policies and procedures intended to prevent insider trading and the misuse of material non-public information and confidential information.

GENERAL INVESTMENT OBJECTIVES

The CRF's general investment objectives are as follows:

1. Provide the means to pay benefits to the System's participants and their beneficiaries and minimize employer contributions. The CRF will seek to maximize long-term risk-adjusted returns to meet or exceed the assumed actuarial rate of return, consistent with liquidity, diversification and investment risk which are prudent under existing circumstances.
2. Review, at least annually, an asset allocation policy that provides for the diversification of assets in an effort to maximize investment return in accordance with statutory guidelines, as well as providing for the funding of current and future benefit payments.
3. Invest assets efficiently, bearing in mind the effect of management and transaction costs on the return of the assets.
4. Exercise all investor responsibilities on behalf of System members, including the voting of proxies, in the best long term interest of the System in accordance with the applicable statutes and voting guidelines of the CRF.

ASSET ALLOCATION AND REBALANCING

Asset Allocation and Asset-Liability Analyses

The Comptroller shall establish an asset allocation policy that provides for diversification of assets in an effort to maximize investment return consistent with prudent credit, market and economic risk, in accordance with statutory guidelines, as well as provide for the funding of current and future benefit payments. The CRF shall engage in an asset-liability study at least once every five years to review asset classes, return-risk assumptions, and correlation of returns with applicable benchmarks and across asset classes. Staff and Consultant(s) provide input and recommendations to the Comptroller in determining the asset allocation. The asset allocation policy is intended to serve as a general guideline and to be broad enough to provide the flexibility needed to react to changes in the various investment, economic, and funding factors. The Comptroller, staff and IAC, with the assistance of the Consultant(s), will monitor the asset composition of the CRF in relation to the established asset allocation policy.

The CRF may associate a benchmark or benchmarks for the different asset classes or sub-classes that describe, in general terms, the opportunity set and risk and return characteristics associated with the asset class or sub-class. Certain of those benchmarks and current target allocations are identified in the following table.

Asset Type	Sample Benchmarks	Policy Allocation
Equity		43%
Domestic Equity	Russell 3000 Index	30%
International Equity	MSCI All Country World x U.S. Index	13%
Bonds, Cash & Mortgages	Salomon Long Pension Fund Index Barclays Aggregate Index	22%
Inflation Indexed Bonds	Citigroup Inflation Linked Index	8%
Alternative Investments (1)		
Private Equity	S&P 500 Index + 3%	10%
Absolute Return	HRFX Global Hedge Fund Index	4%
Real Estate	NYCREIF Index + 2% (2)	6%
Real Assets	(3)	3%
Opportunistic	(3)	4%

(1) These asset classes are, in whole or in part, excluded from the list of statutorily allowed investments and, therefore, are included in the "Basket Clause" limit of 25%.

(2) The Real Estate Customized Index is comprised of 25% of the NFI-Open End Diversified Core Equity Index, 50% of the NCREIF Townsend Fund Return Series-Value-Add Index and 25% of the NCREIF Townsend Fund Return Series-Opportunistic Index.

(3) The benchmarks for these two new asset classes are being developed.

The allocation to equity-related investments is intended to provide maximum risk-adjusted total return and facilitate the long-term growth of principal needed to meet the future liabilities of the System's participants and their beneficiaries and to minimize employer contributions. The allocation to fixed income and debt-related investments reduces the CRF's volatility and provides a more reliable source of cash flow for shorter-term pension liabilities and is intended to provide sufficient liquidity to meet the monthly pension payments to retired participants. The CRF derives maximum benefit from the combination of long-term growth and current income and liquidity. Activities in the capital markets and the CRF's cash flow requirements may result in the CRF exceeding its maximum allocation percentages. The allocation to Alternative Investments is intended to achieve superior risk-adjusted returns relative to public equity and fixed income and improve the diversification of the CRF's investment portfolio

Rebalancing

Staff monitors the overall asset allocation and guideline compliance on an ongoing basis. Activities in the capital markets and the CRF's cash flow requirements may result in the CRF deviating from its maximum allocation percentages at certain times. Staff may recommend a rebalancing at any time and the CIO may initiate a discretionary rebalancing at any time. At least annually, IAC will review the CRF's current asset allocation policy and may recommend changes to the allocations contained in the policy or confirm that no changes are recommended at that time.

When a rebalance is triggered, a plan will be developed whereby specific dollar amounts will be considered for movement based on the degree of the over/underweight in the various asset classes, liquidity characteristics, and current market conditions.

The CRF's rebalancing procedures will take into account and reflect the following considerations:

- Since the CRF is required to trade actual securities and the use of futures is severely limited, trading costs directly impact the overall performance. These procedures control the frequency of rebalancing and employ methods that keep trading costs to a minimum.
- A variety of rebalancing studies, including one by the CRF's General Consultant, have found that a quarterly calendar-based rebalancing policy, with volatility-based trigger points, is the best choice for limiting tracking error caused by the variance between the CRF's actual and target asset allocation while minimizing trading-related transaction costs and disruption to the management of the CRF.

PERFORMANCE MEASUREMENT

The performance of the CRF investment program shall be evaluated by the Comptroller, staff and the IAC, with the assistance of the Consultant(s), on a regular basis.

The Comptroller will establish performance standards for the CRF as a whole, each asset class, and component portfolios. Investment performance for CRF, each asset class, and component portfolios will be compared with their respective benchmark indices over appropriate market cycles. In all respects and measures, CRF should expect to earn a return that compensates it for the risk taken.

Staff will review fund, portfolio, and benchmark returns at least monthly. At least quarterly, staff will conduct reviews of performance and present them to the IAC and the Comptroller. Performance reviews will be conducted versus benchmarks appropriate.

Benchmarks shall also include total fund benchmarks defined as follows:

(1) the Public Market Benchmark calculated based on 54% Russell 3000, 16% MSCI All Country World ex U.S., 22.5% Salomon Smith Barney Long Pension Fund (SSB LPF) Index and 7.5% Salomon U.S. Inflation Linked Securities Index. The Policy Benchmark reflects the asset allocation policy limits updated by the September 2006 Asset Allocation Analysis; and

(2) the Asset Allocation Benchmark calculated based on 35% Russell 3000, 16% MSCI All Country World ex U.S., 22.5% Salomon Smith Barney Long Pension Fund (SSB LPF) Index, 7.5% Barclays US TIPS Index, 8% Cambridge US Private Equity Index (one quarter lag), 6% NCREIF (one quarter lag), 5% HFRX Global Hedge Fund (one month lag). The Asset Allocation Benchmark reflects the asset allocation policy changes over the prior ten years.

As the portfolio implements asset allocation policy, the benchmark may be adjusted to reflect the pace of implementation.

It is understood that there are likely to be intermittent periods when portfolio performance deviates from market indices due to investment styles and strategies falling in and out of favor.

PORTFOLIO IMPLEMENTATION AND DESIGN

The CRF's investment portfolio is characterized by the following functional areas that are charged with the implementation of day-to-day portfolio management activity:

- a. Internally Managed Public Equity Investments;
- b. Externally Managed Public Equity Investments;
- c. Fixed Income Investments;
- d. Private Equity Investments;
- e. Real Estate Investments;
- f. Absolute Return Strategies Investments;
- g. Real Asset Investments; and
- h. Opportunistic Investments.

The asset classes described in (d)-(h) are sometimes referred to collectively as "Alternative Investments".

INVESTMENT DECISION PROCESS

Investment Strategy and Strategic Plans

The Deputy Comptroller, with the assistance of a Consultant, and incorporating the recommendations of staff where appropriate, formulates the overall investment strategy consistent with the asset allocation approved by the Comptroller, and reviews it with the Comptroller. Investment staff implements the approved investment strategy in evaluating and recommending investments to the Deputy Comptroller.

Each asset class, with the assistance of a Consultant, develops a strategic plan with investment and implementation strategies that are consistent with the goals and objectives of the asset class. The strategic plan of each of the asset classes will be reviewed by the IAC and, in the case of real estate, approved by the REAC, and presented to the Comptroller. Staff, and if requested by staff, a Consultant, will review the strategic plans on an as needed basis, but at least once every two years. Any changes to the strategic plans will be presented to the IAC and, in the case of real estate, the REAC, for their review and consideration.

Internally Managed Public Equity Investments

A portion of the CRF's public equity portfolio is managed internally. The following procedures will be followed in managing the portfolio.

Staff, in conjunction with a Consultant, reviews the appropriateness of various index funds that provide core exposure to the U.S. public equity markets.

Staff, in conjunction with a Consultant, may also consider various index fund vehicles to diversify away from the core portfolios and to capture alpha opportunities from particular themes, sectors or countries.

Initiatives may originate from the Comptroller, the Deputy Comptroller, staff, and/or the Consultant. Staff and the Consultant will determine the appropriateness of the investment and then establish criteria to examine whether the investment is attractive. These criteria include, but are not

limited to, investment style, organization, risk-adjusted performance, investment structure, and fit with overall portfolio structure. Staff and the Consultant will work together to find the optimal vehicle to get exposure to the theme or sector.

Externally Managed Public Equity Investments

External public equity Investment Managers may be selected in a variety of ways.

Staff may ask a Consultant to initiate a manager search. In such case, staff and the Consultant will establish the search criteria, including firm-wide and product assets under management, minimum length of track record, style and market capitalization guidelines, relative performance, and risk to the benchmark/tracking error.

Using these criteria, the Consultant will screen the available manager opportunity set and identify those manager candidates that meet these criteria and are therefore appropriate for consideration by the CRF.

The Consultant may further narrow this list using a set of additional criteria in order to identify a smaller number of semi-finalist manager candidates. These criteria include, but are not limited to, investment style, organization, risk-adjusted performance, investment structure, fit with overall portfolio structure and other investment criteria as determined by the CRF. In such case, the Consultant will produce a detailed evaluation report of each semi-finalist candidate for review by staff. Based on this evaluation, staff and the Consultant will identify a small number of finalist candidates to interview. Staff and/or the Consultant may conduct site visits as appropriate. These interviews will include the negotiation of management fees. Staff and the Consultant will then identify those candidates to receive funding and finalize fee negotiations.

The CRF may also use a Consultant to pre-qualify and/or select managers using other methods, such as manager ratings and buy lists. The CRF may also use non-Consultant driven processes for selecting external public equity managers. Selections will be made in accordance with applicable policies and procedures for the selection of asset managers.

Fixed Income Investments

Fixed Income investments are managed internally. The following procedures will be followed in selecting fixed income investments.

The Fixed Income investment program is reviewed annually in conjunction with the review of the CRF's asset allocation policy and periodically through out the year. Based upon the CRF's level of cash, reallocation within the Fixed Income portfolio, or a re-balancing of the overall portfolio, Fixed Income staff will establish "buy programs" in consultation with its Consultant.

Buy programs set out characteristics of the types of securities to be purchased including, but not limited to, sectors, ratings and tenor, and are driven by several factors including target ranges for fixed income in overall asset allocation, market conditions, and duration requirements of the Fixed Income portfolio.

Approved brokers are informed regularly of active buy programs in order to locate and submit securities for consideration of the CRF's current requirements.

Staff and the Consultant review attractive offers with respect to credit risk, diversification, spread and absolute yield, and make portfolio purchases as appropriate.

Based on market conditions and the CRF's needs, buy programs may be implemented and terminated at any time.

Alternative Investments

The following procedures will be followed in selecting Alternative Investments, unless otherwise specified.

Staff will initially evaluate investment opportunities for their appropriateness in terms of the CRF's asset allocation policy and investment objectives. Investment opportunities may be identified by a Consultant; however the CRF will maintain an open door policy in sourcing investments. Opportunities that are deemed to be inappropriate will be declined.

Opportunities deemed appropriate by staff may be assigned to a Consultant for review. The Consultant will review the opportunities based upon various characteristics including, but not limited to, investment style, organization, risk-adjusted performance, investment structure, fit with overall portfolio structure and other investment criteria as determined by the CRF. Based on its review, the Consultant may recommend opportunities for further review to staff.

For opportunities recommended for further review, staff may determine to authorize the Consultant to perform due diligence on such opportunities. Areas of due diligence may include, but are not limited to, strategy, historical performance, valuation procedures, risk management, market opportunity, operations, management and employees, and appropriateness to the overall portfolio. Additionally, staff and/or the Consultant may conduct site visits as appropriate. At the same time, staff will conduct its own due diligence on such opportunities.

The Consultant will provide a written or verbal review of its analysis with staff, describing the strategy, strengths and weaknesses (if any) and terms of the potential investment. The review concludes with a recommendation whether the CRF should further consider the investment.

Staff may bring recommended opportunities to the Deputy Comptroller at any stage of the process for discussion of issues and further direction as to whether to conduct further proceedings.

Real Estate investments will be submitted to the REAC for review and approval prior to Staff's making a recommendation to the Comptroller.

General Requirements Applicable to All Asset Classes

In order for an investment and/or Investment Manager to be recommended to the Comptroller:

- (i) Each of staff and the Consultant must prepare and submit an independent final written recommendation that the CRF make the investment or hire the Investment Manager;
- (ii) The Staff recommendation must be signed by the investment officer responsible for the recommendation and the head of the asset class. If the asset class head is also the primary investment officer, a second investment officer must concur with the recommendation.
- (iii) Subject to certain exceptions, the proposed investment and/or Investment Manager hiring must be reviewed by CRF's Internal Investment Committee. The Deputy Comptroller will ensure that recommendations to the Comptroller are accompanied by minutes of the Committee meeting at which the investment proposal and/or Investment Manager hiring was presented, and that the final investment recommendation memo to the Comptroller contains a discussion of the risks of the proposed course of action as well as the factors mitigating risk, as raised and discussed at the Committee meeting.

(iv) The Deputy Comptroller will review the investment and/or Investment Manager selection with the Comptroller and make a recommendation. Such recommendation shall state that the investment and/or Investment Manager selection complies with the procedures outlined in this section, or if it does not, shall detail such noncompliance and request a waiver thereof.

(v) If the Comptroller agrees with the recommendation, he or she gives final written approval for the investment.

PUBLIC EQUITIES

Objectives

The primary investment objective of the public equity portion of the CRF is to provide long-term capital appreciation; the secondary objective is to generate a stream of dividend income.

Portfolio Restrictions

1. The following items are restrictions or limitations imposed by law upon the ownership of equity securities of corporations created or existing under the laws of the United States or any state, district or territory, thereof (this limitation applies to both direct ownership and commingled funds):

a) The maximum investment by the CRF in such securities shall not exceed (i) 15% of the assets of the CRF in any one year (or 20% provided all previous years from April 1983 do not exceed 15% on average); or (ii) 70% in the aggregate.

b) Not more than 2% of the assets of the CRF can be invested in the equity securities of any one corporation.

c) Not more than 5% of the total issued and outstanding equity securities of any one corporation may be owned by the CRF.

2. The following items are restrictions or limitations imposed upon the ownership of foreign equities:

a) RSSL 177(8) permits investment in foreign equities provided certain registration requirements are met:

The corporation has averaged at least \$1 billion in annual sales for three consecutive years preceding the year of investment or has market capitalization of at least one billion dollars at the time the investment is made.

The maximum invested pursuant to the above limitations may not exceed 10% of the assets of the CRF.

Investments in foreign equities shall be included with the CRF's investments in other equities for purposes of determining the overall equity percentage limitation of 70%.

b) RSSL 177(9) or the Basket Clause provides that 25% of the CRF may be invested in assets not permitted under any other section of law. This provision may be utilized to purchase foreign equities not permitted under section 177(8) of the RSSL.

INTERNALLY MANAGED PUBLIC EQUITY

Objectives

The primary investment objective of the internally managed public equity portfolio is to provide low-cost efficient exposure to the U.S. domestic equity market. To accomplish this goal, the CRF implemented a structured index strategy, managing certain indexed funds internally.

Index funds are an efficient investment vehicle for a variety of strategies and staff will continue to consider utilizing Index Funds as an efficient option to gain exposure to new attractive strategies.

The internally managed public equity may also employ additional strategies beyond indexing with varying strategic and trading needs. These strategies may vary in terms of portfolio concentration and time horizon and may involve more tracking error compared to traditional cap-weighted index funds.

Investment Structure and Procedures

The funds are managed in such a manner as to closely approximate the investment performance of their respective benchmarks. To attain this investment performance, the individual stocks and industry sectors are held in weightings closely equal to the stocks and sectors of their benchmarks. Portfolio management and trading guidelines are maintained in separate detailed procedures.

EXTERNALLY MANAGED PUBLIC EQUITY

Objectives

The primary investment objective of the externally managed public equity portfolio is to provide exposure to segments of the public equity markets that are considered relatively inefficient, thereby presenting the opportunity to generate returns substantially above those of the index benchmark, or too costly to replicate through internal management.

Investment Structure and Procedures

To accomplish this goal, the CRF retains external Investment Managers to invest in publicly-traded equity securities and related instruments, in accordance with the asset allocation and risk parameters of these General Investment Policies, to meet or exceed the performance of their respective benchmarks. External Investment Managers use fundamental and/or quantitative research to structure a portfolio that will produce a return in excess of the benchmark, net of management fees and trading costs. Each Investment Manager is hired with a distinctive style and investment approach. Rates of return are evaluated against the stated benchmark over market cycles. Performance is also compared to Investment Managers with similar investment styles and against other accounts of comparable size and with comparable investment restrictions. More detailed Investment Manager guidelines and expectations are outlined in the individual Investment Management Contracts/Agreements.

FIXED INCOME PORTFOLIO

Objectives

Short Term Fixed Income Investments

The CRF's short-term fixed income portfolio must accommodate the disbursement and funding needs of the various investment divisions. The objectives of the short-term investment program are to obtain the maximum yield consistent with safety of principal and to develop a portfolio that will emphasize quality, liquidity, and diversification.

Long Term Fixed Income Investments

The primary investment objective of the CRF's long-term fixed income portfolio is to generate a total return commensurate with its desired risk profile and implement a partial duration/cash matching strategy relative to the CRF's liabilities. In addition, Fixed Income investments provide diversification relative to CRF's equity investments.

The CRF invests in a variety of fixed income securities all of which must be rated investment grade at the time of purchase by at least two nationally recognized rating agencies and must be denominated in US dollars. Subject to legal, tax and policy considerations, securities purchased under the core fixed income portfolio include but are not limited to:

- Government Securities
- New York State Municipal Securities
- Debt of New York State Municipalities and Public Authorities
- Non-New York State Municipal Debt
- Corporate, Yankee and Asset Backed Securities

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- Commercial Mortgage Backed Securities (CMBS)
 - Repurchase Agreements

Surveillance of Corporate Bonds

In addition to regularly monitoring and trading within the portfolio, it is the CRF's policy to monitor all corporate bond holdings whose ratings have fallen to below investment grade and make determinations regarding retention or disposition of affected securities.

Other Investment Related Programs

Securities Lending

RSSL Section 177-d authorizes the CRF to lend securities in the long-term-fixed income and equity portfolios. The CRF has designated its master custodian bank to manage the securities lending program subject to written contract between the CRF and the Custodian.

New York State Mortgage Pass-Through Program

Under the New York State Mortgage Pass-Through Program the CRF may, at its discretion, commit to purchase securities from the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation that are backed exclusively by New York State mortgage loans. The issuers pool and securitize the loans and remit monthly interest and principal payments to the CRF.

ALTERNATIVE INVESTMENTS

Objectives

The investment objectives for the CRF's Alternative Investment classes are to:

- Enhance the CRF's long-term investment returns;
- Achieve superior risk-adjusted returns relative to public equity and fixed income; and
- Improve the diversification of the CRF's investment portfolio.

In the case of the Real Estate and Real Asset investment classes, an additional objective is to earn, at a minimum, a market real rate of return after fees, thereby offering a degree of inflation protection.

PRIVATE EQUITY

Investment Structure and Procedures

The CRF seeks to participate in private equity investments primarily through private equity partnerships, which are pooled funds managed by specialized investment managers for the purposes of making structured investments in private or public companies. Private equity fund managers often have the flexibility to invest in a wide range of securities, including various forms of equity (stock, rights, options, partnership units) and debt (notes, bonds, debentures, evidences of indebtedness). Private equity investments are generally held for long term appreciation, are typically be subject to transfer restrictions and as such are less liquid than publicly-traded securities. The long-term nature of these investments reflects and partially matches the perpetual nature of the System and the long-term nature of its liabilities.

Properly structured private equity partnerships and investments help to foster an ownership mentality among capital providers, investment managers, and corporate management teams. Meaningful equity participation among the principals serves to align the interests of managers and shareholders, emphasizing the common goal of enhancing enterprise value. In addition, private ownership enables investors and managers to focus on long-term value creation as opposed to short-term earnings targets. Finally, the most successful private equity investors leverage their operating expertise to achieve business building and improvement initiatives, providing an important source of value-added returns less correlated with overall market fluctuations.

The CRF will seek to partner with the very best private equity investors, including emerging and diverse managers, across all strategies and geographies, including international developed and emerging markets. Private equity investment strategies include leveraged buyouts, growth equity, venture capital, distressed debt, turnarounds, restructurings, and other special situations. The CRF will also selectively consider co-investment opportunities with its investment managers as well as secondary transactions, including transfers of private equity fund interests and portfolios of direct investments in private companies. The CRF's private equity team will be responsible for the sourcing, due diligence, and monitoring of all investment opportunities, but will work with Consultants as necessary and required.

The CRF may selectively elect to establish or participate in fund of funds vehicles to enable the Fund to participate in certain investment areas where the CRF has limited expertise, access, or resources.

REAL ESTATE

Investment Structure and Procedures

The CRF's direct-equity real-estate investments are made pursuant to RSSL section 177 (6)(e), which allows investment in real property as an investment for the production of income. Investments cannot be made in properties used primarily for agricultural, horticultural, ranch, mining,

recreational, amusement or club purposes. Each individual direct-equity investment cannot exceed 2% of the total assets of the CRF. Additionally, the aggregate market value of all direct-equity investments cannot exceed 5 % of the total assets of the CRF. The CRF utilizes the Basket Clause to make investments in real estate in excess of the 5% limitation.

Real estate strategies that will be considered for investment include the following: primary investments in limited liability entities (usually limited partnerships) with operators, managers or advisors; joint ventures in which the CRF participates as a limited liability company member or limited partner; non-discretionary separate accounts managed by real estate advisors; programs with established and emerging managers; and commingled funds comprised of a general partner and multiple limited partners. Investments acquired through non-discretionary separate accounts will generally consist of co-investments, including joint ventures with owners/operators of real estate, although an investment may be wholly owned by the CRF (through its nominee). The CRF seeks to build a diversified real estate portfolio with allocation to the major property types (industrial, multi-family, retail, office and lodging) and, to a lesser extent, niche strategies (self-storage, student housing, development, and others). Geographic diversification is a prudent goal to avoid over-concentration and risk in any market or region. As a global investor, the CRF desires to increase its investments throughout the world, where different countries and regions may offer varying growth or recovery opportunities through the real estate asset class. The long-term nature of these investments reflects and partially matches the perpetual nature of the System and the long-term nature of its liabilities.

In general, real estate investments must be approved by the REAC. The REAC may allow staff discretion in specified instances, such as where the investment per transaction is less than a certain size and the investment meets pre-approved criteria. Any such discretionary thresholds will be recorded in a written document approved by the REAC. Individual proposals presented by Consultants under the approved guidelines require the written approval of the Deputy Comptroller and the Comptroller.

ABSOLUTE RETURN STRATEGIES

Investment Structure and Procedures

Investments in Absolute Return Strategies will be in the form of limited liability entities such as partnerships, limited liability companies and equity share classes of investment entities.

The CRF will pursue investments through a variety of vehicles including:

- i. Single strategy funds;
- ii. Multi-strategy funds;
- iii. Funds of hedge funds;
- iv. Customized managed account funds;
- v. Separate account funds;
- vi. Advisor-assisted programs.

Staff will work with a Consultant to determine appropriate target allocation mix for various

ARS strategies to maintain a diversified Absolute Return Strategies portfolio. The target allocation mix will be reviewed on at least a semi-annual basis to determine if an adjustment to the mix is warranted.

Terms of investment will vary by fund. The CRF will make efforts to negotiate investment terms in accordance with certain guidelines with respect to management and performance fees, liquidity, and transparency.

1. Management and Performance Fees
 - Structured to align the interests of the fund managers and the CRF.
 - In accordance with general market terms.
2. Liquidity and Lock-up Provisions
 - 2 year or less initial lock-up period.
 - Annual (or more frequent) redemption right after initial lock-up period.
 - At least 50% of Absolute Return Strategies portfolio should be convertible into cash within 18 months.
3. Transparency
 - Monthly reporting of net asset value
 - Monthly or quarterly fund reports and letters from managers.
 - Audited annual financial statements

REAL ASSET INVESTMENTS

Investment Structure and Procedures

Real Asset investments may include timberland and farmland, industrial commodity producers, infrastructure and spot commodity price movements.

Real Asset investments will be in the form of limited liability entities such as partnerships, limited liability companies, co-investments, and publicly traded equity and debt securities.

Real Asset investments may include private investment fund of funds or other commingled vehicles or separate account vehicles that themselves invest in real assets strategies and/or securities and other financial instruments.

The CRF will pursue investments through a variety of vehicles including:

- i. Single strategy funds;
- ii. Multi-strategy funds;
- iii. Funds of funds;
- iv. Separate account funds;
- v. Advisor-assisted programs.

Staff will work with one or more Consultant(s) to determine appropriate target allocation mix for various real asset strategies to maintain a diversified portfolio. The target allocation mix will be reviewed periodically to determine if an adjustment to the mix is warranted.

Terms of investment will vary by fund. The CRF will make efforts to negotiate investment terms in accordance with certain guidelines with respect to management and performance fees, liquidity, and transparency.

OPPORTUNISTIC INVESTMENTS

Investment Structure and Procedures

Opportunistic Investments will be investments not typically included within other broad asset classes and for which long-term capital market expectations are uncertain; those of limited duration; and/or partnership investments with intermediate terms.

Opportunistic Investments will be in the form of limited liability entities such as partnerships, limited liability companies, co-investments, and publicly traded equity and debt securities.

Opportunistic Investments may include private investment fund of funds or other commingled vehicles or separate account vehicles that themselves invest in related strategies and/or securities and other financial instruments.

The CRF will pursue investments through a variety of vehicles including:

- i. Single strategy funds;
- ii. Multi-strategy funds;
- iii. Funds of funds;
- iv. Separate account funds;
- v. Advisor-assisted programs.

Staff will work with one or more Consultant(s) to determine appropriate weightings for various Opportunistic Investments strategies to maintain a diversified portfolio and meet the objective of enhancing the overall CRF return.

Terms of investment will vary by fund. The CRF will make efforts to negotiate investment terms in accordance with certain guidelines with respect to management and performance fees, liquidity, and transparency.

OTHER INVESTMENT RELATED GUIDELINES

The Comptroller may adopt guidelines with respect to specific investment related issues, including, but not limited to, securities lending, proxy voting, brokerage, and securities litigation.