

## A REPORT ON THE 2003 SHAREHOLDER PROPOSALS AND OTHER SHAREOWNER INITIATIVES OF THE NEW YORK CITY PENSION FUNDS & RETIREMENT SYSTEMS Executive Summary

In 2003, the New York City Comptroller's Office, with authorization and on behalf of the boards of trustees of the New York City pension funds and retirement systems (the "systems"), launched the largest and most comprehensive shareholder proposal campaign in the systems' long history of shareholder activism. The programs achieved significant results on key corporate governance and corporate social responsibility reforms at over 80 publicly traded companies.

In addition, the Comptroller, joined by other trustees of the systems, brought together leading institutional investors to address the widespread failure of corporate boards to act on shareholder proposals that win majority votes. He also wrote, on behalf of the funds' boards of trustees, to the Chairman of the Securities and Exchange Commission (SEC) and the Board of the New York Stock Exchange (NYSE) urging the adoption of corporate governance reforms to restore investor confidence in the stock markets. And in response to controversy at the NYSE over the retirement compensation of its Chairman, the Comptroller joined with state treasurers and leaders of institutional investors in urging governance reforms on the NYSE board.

### New Proposals

Two new proposals aimed at restoring investor confidence in the stock market were introduced. One called on the board of directors of selected Nasdaq-companies to establish a mechanism for direct communication between board members, particularly the independent directors and shareholders. The other called for the establishment of a board process and procedures for boards to act on shareholder proposals that win majority vote. The "majority vote" proposal was adopted by three companies, and two adopted the "director/shareholder communication" proposal.

### Appeal to the SEC Commissioners

In response to the SEC's Division of Corporate Finance staff's concurrence with four companies that the latter proposal could be omitted from their proxy statements, on the basis of "ordinary business", Comptroller Thompson filed an appeal of the staff's decision to the Commission. In stating its reasons for its August 8, 2003 Proposed Rule: Disclosure Regarding Nominating Committee Functions and Communications between Security Holders and Board of Directors, the Commission cited the systems' proposal.

### Majority Votes

Majority votes were won at a number of companies: One proposal, which called for the repeal of the classified board and the annual election of all directors, won majority votes at four companies. One, which sought an explicit ban against workplace discrimination, based on sexual orientation, won majority votes at two companies. The board of both companies subsequently adopted the proposal. Finally, a proposal, which requested an amendment of a company's certificate of incorporation to provide for the right of

shareholders to take action by written consent and to call special meetings, won a large majority vote.

#### Agreements Reached with Companies

Eight additional companies either satisfied, or agreed to adopt, the proposal. Finally, seven companies agreed to another new proposal, which sought the issuance of an annual sustainability report, based on the Global Reporting Initiative (GRI), a long-term, multi-stakeholder, international process aimed at developing globally applicable Sustainability Guidelines.

**2003 SHAREHOLDER PROPOSALS  
OF THE NEW YORK CITY PENSION FUNDS  
As of December, 2003**

**I. CORPORATE GOVERNANCE PROPOSALS:**

**(a) To Repeal the Classified Board and Elect all Directors Annually**

<u>COMPANIES</u>	<u>STATUS</u>	<u>SPONSOR/ CO-SPONSOR</u>	<u>VOTE</u>
1. Saks Incorporated	proposal filed	NYCERS	<b>48.2%</b>
2. Manor Care, Inc.	proposal filed	FIRE	<b>71.1%</b>
3. Steris Corp.	proposal filed	NYCTRS	<b>67.2%</b>
4. Covance Inc.	proposal filed	NYCERS	<b>62.6%</b>
5. MeriStar Hosp. Corp.	proposal filed	POLICE	*

**\*( The proposal was not introduced at the company's annual meeting because our representative was involved in an automobile accident on her way to the meeting.)**

6. Gerber Scientific	proposal filed	NYCERS	<b>69%</b>
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**(b) To Establish a Mechanism for Direct Communications Between Shareholders and Directors**

**(The board of directors voted unanimously to recommend to shareholders for a vote at the company's 2004 annual meeting charter and bylaw amendments to eliminate the Board's classified structure).**

<u>COMPANIES</u>	<u>STATUS</u>	<u>SPONSOR</u>
<u>VOTE</u>		<u>CO-SPONSOR</u>
1. Axiom	<b>Withdrawn/ proposal adopted</b>	NYC Funds
2. Checkfree Corp.	proposal filed; <b>company requested SEC "no-action", SEC concurred with</b>	NYC Funds

**company.**

3. Autodesk, Inc.                      proposal filed;                      NYC Funds,  
**agreement reached, Walden Assets**  
**company created**  
**mechanism, proposal**  
**withdrawn.**
  
4. Comverse Technology              proposal filed;                      NYC Funds  
**company requested**  
**SEC "no-action,**  
**SEC concurred with.**  
**company.**
  
5. Peoplesoft Inc.                      proposal filed;                      NYC Funds  
**company requested**  
**SEC "no-action";**  
**SEC granted "no-action**  
**letter"; Comptroller's Office**  
**appealed SEC staff's decision to**  
**the SEC Commission; decision**  
**pending.**
  
6. Safeco Corp.                      proposal filed;                      NYC Funds, CT  
**company requested**  
**SEC "no-action";**  
company and  
Comptroller's  
Office engaged in  
dialogue; **company**  
**agreed to establish**  
**mechanism and withdraw**  
**"no-action" request; proposal**  
**withdrawn.**
  
7. Advanced Fibre  
    Communication                      proposal filed,                      NYC Funds  
**company requested**  
**SEC "no-action";**  
**Comptroller's Office submitted a**  
**rebuttal; SEC granted the "no-**  
**action" letter; Comptroller's**  
**Office appealed the SEC**  
**Staff's decision to the SEC**  
**Commission. Decision pending.**

(c) **Establish a Process and Procedure for Acting on Shareholder Proposals that Win Majority Votes**

**COMPANIES**  
**VOTE**

**STATUS**

**SPONSOR**

**CO-SPONSOR**

1. Goodyear Tire & Rubber

proposal filed;  
meeting held  
between company  
and NYC Funds'  
proxy committees;  
process for dialogue  
established; **company  
agreed to establish  
process and procedure  
for acting on shareholder  
proposals that win majority  
votes;**

NYC Funds

2. Wisconsin Energy

proposal filed;  
**company requested  
SEC "no-action";**  
Comptroller's  
Office filed rebuttal;  
Comptroller wrote to the  
company's independent  
directors seeking their  
support; a meeting  
with the representatives  
of the company, including  
one of the independent  
directors, and the NYC  
Funds' proxy committees  
was held on March 4. **SEC  
granted no action letter,  
proposal omitted.  
Company committed to  
collaborate with  
Comptroller's Office in developing  
a corporate governance charter  
after the 2003 annual meeting.**

NYC Funds

- |                 |   |                          |
|-----------------|---|--------------------------|
| 3. Gillette Co. | proposal filed;<br><b>company requested<br/>SEC "no-action";<br/>SEC granted "no-<br/>action" letter, proposal omitted.</b>   | NYC Funds, CT            |
| 4. PacifiCare   | proposal filed;<br><b>proposal withdrawn<br/>because the board<br/>agreed to propose the Funds'<br/>2002 majority-vote approved<br/>"classified board proposal"<br/>before the shareholders<br/>at the 2003 annual meeting.</b>   | NYC Funds                |
| 5. Hasbro       | proposal filed;<br>Comptroller's Office and<br>company engaged in<br>dialogue; board of directors<br>agreed to propose, at the 2003<br>annual meeting, the NYC Funds'<br>2002 majority vote-approved<br>proposal to repeal the classified<br>board; as a result of the agreement,<br>the new <b>proposal was withdrawn.</b> | FIRE<br>POLICE<br>NYCTRS |

**(d) To Adopt a Policy Requiring Stock Options granted as Executive Compensation to be Performance-Based**

<u>COMPANIES</u> <u>VOTE</u>	<u>STATUS</u>	<u>SPONSOR</u> <u>CO-SPONSOR</u>
1. Conseco	proposal was <b>not filed,</b> company in bankruptcy.	
2. New Park Resources	proposal filed; <b>proposal withdrawn</b> because the company provided the Comptroller's Office information on its policy, which satisfies	NYCERS POLICE

the standards of the proposal.

(e) **To Reinstate the Rights of Shareholders to Act by Written Consent and to Call Special Meetings**

<u>COMPANIES</u> <u>VOTE</u>	<u>STATUS</u>	<u>SPONSOR</u> <u>CO-SPONSOR</u>	
1. Metromedia International	proposal was <b>not filed</b> because the company is in bankruptcy.		
2. Hercules, Inc.	proposal filed.	FIRE	<b>64%</b>
3. Burlington Resources	proposal filed; <b>company requested SEC "no-action";</b> Comptroller's Office submitted a rebuttal; <b>SEC concurred with company; proposal omitted.</b>	FIRE	
4. Xerox Corp.	proposal filed;	NYCTRS	<b>33.0%</b>

## II CORPORATE SOCIAL RESPONSIBILITY

### (a) To Issue an Annual Report Based on the *Global Reporting Initiative (GRI) 2002 Sustainability Reporting Guidelines*

<u>COMPANIES</u> <u>VOTE</u>	<u>STATUS</u>	<u>SPONSOR</u>  <u>CO-SPONSOR</u>
1. Dell	proposal filed; <b>proposal withdrawn, agreement reached.</b>	NYC Funds
2. DuPont	proposal was <b>not filed</b> because of company's positive engagement with CERES on the issue.	
3. FedEx	proposal filed; <b>(withdrawn based on company's commitment and agreement to a process of review and dialogue)</b>	NYCTRS POLICE FIRE
4. IBM	proposal was filed; <b>company requested SEC "no-action";</b> Company met with Funds' Proxy Committees; Comptroller's Office and company engaged in dialogue; <b>agreement reached; company withdrew "no-action" request; Funds withdrew proposal.</b>	NYC Funds
5. Intel	proposal was filed; <b>company requested SEC "no-action";</b> company and Comptroller's Office	NYC Funds

engaged in dialogue;  
**agreement reached;**  
**proposal withdrawn.**

6. McDonald's Corp.

proposal was filed; NYC Funds  
**company requested**  
**SEC "no-action";**  
meeting held between  
company and Comptroller's  
Office; **company agreed to**  
**the terms of the proposal,**  
**proposal withdrawn.**

7. Pepsico

proposal was filed; NYC Funds  
**company requested**  
**SEC "no-action";**  
meeting between  
company and Funds'  
proxy committee was  
held; **agreement was**  
**reached; proposal**  
**was withdrawn.**

8. Microsoft

**company requested** Walden Asset Mgt.;  
**SEC no-action;** NYC Funds  
**proposal and no-**  
**action request subsequently**  
**withdrawn, based on agreement.**

**(b) To Review, and Issue a Report on, Business Ties to Countries that Sponsor Global Terrorism**

**COMPANIES**  
**VOTE**

**STATUS**

**SPONSOR**

**CO-SPONSOR**

1. Conoco

proposal filed; POLICE  
company requested FIRE  
meeting with  
Comptroller's Office;  
meeting to be held;  
**company sought SEC**  
**no-action letter to omit**  
**the proposal based on the**  
**funds' ownership of shares**

**for less than one year. SEC granted "no-action" letter. However, the company agreed to implement the proposal.**

2. Halliburton	proposal filed; <b>company requested SEC "no-action"; SEC did not grant the company its request. The company subsequently agreed to implement the proposal.</b>	POLICE FIRE	
3. General Electric	proposal filed	POLICE FIRE	7.1%

**(c) Adopt the McBride Principles**

<u>COMPANIES</u> <u>VOTE</u>	<u>STATUS</u>	<u>SPONSOR</u> <u>CO-SPONSOR</u>	
1. Baker Hughes	proposal filed	NYCTRS	6.5%
2. BE Aerospace	proposal filed, <b>company requested SEC "no-action"; proposal withdrawn</b>	NYCTRS, POLICE, FIRE	
3. Crane Company	proposal filed	NYCERS NYCTRS	8.4%
4. Interpublic Group	proposal filed	NYC Funds	7.1%
5. Raytheon	proposal filed	NYC Funds	10.3%
6. TJX Companies	proposal filed	NYC Funds	9.3 %
7. Claire's Stores Inc.	proposal filed	NYCTRS POLICE FIRE	12.0%

8. Danaher Corp.	proposal filed; <b>agreement reached; proposal withdrawn.</b>	NYC Funds	
9. Teletech Holdings	proposal filed	NYC Funds	16.6%
10. Yum Brands, Inc.	proposal filed	NYC Funds	12.1%

**(d) Adopt Global Workplace Standards Based on International Labor Organization (ILO) Conventions, and Establish Independence Monitoring of Compliance**

<u>COMPANIES</u> <u>VOTE</u>	<u>STATUS</u>	<u>SPONSOR</u> <u>CO-SPONSOR</u>	
1. American Eagle 13.0%	proposal filed	NYC Funds	
2. Federated Department Stores	proposal filed; <b>agreement reached, proposal withdrawn</b>	NYC Funds	
3. General Mills	proposal filed; <b>agreement reached on company's proposed plan to review labor/ worker rights standards, proposal withdrawn</b>	NYC Funds	
4. Hasbro	proposal filed	NYCERS	14.4%
5. Home Depot	proposal filed	NYC Funds	8.0%
6. Kohl's	proposal filed; <b>company requested SEC "no-action"; ICCR decided that the SEC would concur with the company and withdrew the proposal.</b>	ICCR (primary sponsor); NYC Funds (co-sponsor)	

7. Lowes	proposal filed	NYC Funds	6.6%
8. Men's Wearhouse	proposal filed	NYC Funds	8.1%
9. Nordstrom	proposal filed; <b>company satisfied proposal; proposal withdrawn.</b>	NYC Funds	
10. Procter & Gamble	proposal <b>was not filed</b> (dialogue)		
11. Sears & Roebuck	proposal filed, <b>(proposal withdrawn by primary filer to allow for structured dialogue process)</b>	NYC Funds (as co-sponsors)	
12. Stride Rite	proposal filed	NYC Funds	8.3%
13. TJX	proposal filed	POLICE FIRE	8.4%
14. Westpoint Stevens	proposal filed <b>(meeting postponed indefinitely because of bankruptcy)</b>	NYC Funds	
15. Alcoa	proposal was filed; <b>company requested SEC "no-action" SEC concurred with company; proposal omitted.</b>	NYCERS FIRE POLICE	
16. Disney	proposal filed	NYC Funds	
17. Mattel	proposal filed; <b>proposal withdrawn based on agreement that company will meet and engage in good-faith discussions with representatives of Hong Kong Christian Industrial</b>	NYC Funds	

Committee (HKCIC).

18. Walmart	proposal filed	NYC Funds	4.4%
19. Dillards	proposal filed	NYC Funds	15.1%
20. Colgate Palmolive	proposal filed	NYC Funds	11.1%
21. Sara Lee	proposal filed; <b>company requested SEC "no-action", SEC did not concur; proposal will be presented at annual meeting.</b>	NYCERS	

**(e) To Include in the Company's EEO Policy an Explicit Prohibition of Discrimination Based on Sexual Orientation**

<u>COMPANIES</u>	<u>STATUS</u>	<u>SPONSOR</u>	<u>CO-SPONSOR</u>
<u>VOTE</u>			
1. CBRL Group	<b>2002 proposal won majority vote (58%); board of directors adopted policy.</b>		NYCERS
2. ExxonMobil	proposal filed	NYCERS'	<b>27.3%</b> Unitarian, Universalist Association of Congregations, Marianne R. Wells, Funding Exchange, Trillium Asset Management, The Needmore Fund, Dr. Ellen Birenbaum, Mr. Steve Strauss, Ms. Kim I. Mills.
3. American Electric Power	proposal filed; <b>company satisfied proposal; proposal</b>	NYCERS NYCTRS	

	<b>withdrawn.</b>		
4. Duke Energy	proposal filed; <b>company satisfied proposal; proposal withdrawn.</b>	NYCERS NYCTRS	
5. CenterPoint Energy (formerly Reliant Oil)	proposal filed	NYCERS NYCTRS	<b>32.0%</b>
6. Dynergy	proposal was filed; <b>company satisfied proposal; proposal withdrawn.</b>	NYCERS NYCTRS	
7. Marathon Oil	proposal filed; <b>company satisfied proposal; proposal withdrawn.</b>	NYCERS NYCTRS	
8. JC Penney	proposal filed; <b>company agreed to support proposal in proxy statement.</b>	NYCERS NYCTRS	<b>93.3%</b>
9. Mirant	proposal filed; <b>proposal adopted, withdrawn.</b>	NYCERS NYCTRS	
10. TXU Corp.	proposal filed; <b>company satisfied proposal; proposal withdrawn.</b>	NYCERS NYCTRS	
11. Ingram Micro	proposal was filed; <b>company satisfied proposal; proposal withdrawn.</b>	NYCERS NYCTRS	
12. Lockheed Martin	proposal was <b>not filed</b> because the company satisfied its provisions.		

13. FedEx	proposal filed; <b>agreement reached; proposal withdrawn</b>	Walden Asset NYCERS
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**(f) To Report to the Shareholders on the Company's Implementation of its Social and Human Rights Policy in its Overseas Operations**

<u>COMPANIES</u> <u>VOTE</u>	<u>STATUS</u>	<u>SPONSOR</u> <u>CO-SPONSOR</u>	
1. ExxonMobil	proposal filed	NYCTRS POLICE	8.1%
2. Freeport McMoran	proposal filed; <b>company requested SEC "no-action"; SEC granted request, proposal omitted</b>	NYCERS NYCTRS	

**(g) Disclose Costs of Lobbying Against the Campaign for Removal of PCBs from the Hudson River**

<u>COMPANY</u> <u>VOTE</u>	<u>STATUS</u>	<u>SPONSOR</u> <u>CO-SPONSOR</u>
1. General Electric 25.6%	proposal filed	NYCTRS,  Sisters of St. Dominic of Caldwell, N.J.

**(h) Review and Report on Company's Policy on Marketing Cigarettes to Youth Overseas**

<u>COMPANY</u> <u>VOTE</u>	<u>STATUS</u>	<u>SPONSOR</u> <u>CO-SPONSOR</u>	
1. Altria Group	proposal filed; dialogue ongoing	NYC Funds	8.4%

- (i) **Report on the Effect on the Company's Business Strategy of Measures to Oppose Privatization of the Provision of Waste Collection, Disposal, Transfer and Recycling Services.**

<u>COMPANY</u> <u>VOTE</u>	<u>STATUS</u>	<u>SPONSOR</u>	
1. Waste Management, Inc.	proposal filed	<u>CO-SPONSOR</u> AFSCME NYCERS	6.1%

- (j) **Report by September 2003 explaining how the company will respond to rising regulatory, competitive and public pressure to significantly develop renewable energy sources.**

<u>COMPANY</u> <u>VOTE</u>	<u>STATUS</u>	<u>SPONSOR</u>	
1. ExxonMobil	proposal filed	FIRE	21.3%