



DOMESTIC PROXY POLICY

REVISED FEBRUARY 14, 2006

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PREAMBLE

The Board of Administration (the “Board”) of the Los Angeles City Employees’ Retirement System (the “System”), in fulfilling its duties as fiduciaries under the prudent person standard, exercises *duty of loyalty* to its members and beneficiaries and *duty of care* in administering the System’s investment program.

As a component of the System’s investment program, the proxy voting program includes, but is not limited to, a comprehensive and meaningful proxy policy that reflects the Board’s highest level of attention and care towards sound corporate governance practices. The System’s investment policy provides the following:

Proxy voting rights will be managed with the same care, skill, diligence, and prudence as is exercised in managing other assets.

Proxy voting rights will be exercised in the sole interest of the System’s members and beneficiaries in accordance with all applicable statutes consistent with the Board proxy policy.

The System’s proxy policy, when diligently applied to the proxy voting process, should result in sound corporate governance practices that maximize shareholder value. In light of evolving and special corporate governance issues, the Board retains discretion in the application of the System’s proxy policy and will review it periodically for modifications as necessary.

STATEMENT OF PURPOSE

The Board of Administration (“the Board”) has formulated this policy to provide a guideline for proxy voting. All applications of this policy are executed by an outside proxy voting agent. The policy can be amended on an ad hoc basis as needed by the Board. The proxy voting agent reports semi annually to the System and these reports are reviewed for compliancy with the policy.

Effective February 14, 2006

ISSUE	POSITION	RATIONALE
A BAR ON SHAREHOLDER ACTION VIA WRITTEN CONSENT	AGAINST	A dilution of shareholders’ voting power; limits shareholder rights and abilities to control the Board of Directors or to call a special meeting to compel consideration of any matter over the opposition of the Board.
ACCESS TO PROXY PROCESS Allows shareholders greater access to the proxy or nomination process.	FOR	Pro-access is based on the belief that there is increased corporate accountability and healthy communication. However, there must be a controlled, inexpensive, and uncluttered means for greater access.
ANNUAL MEETING DATE & LOCATION	The System supports company management in principle VOTING AGENT’S DISCRETION	Mandatory rotation of the annual meeting would not significantly increase stockholders’ access to management since there are convenient alternatives available to interested stockholders. It would decrease the company’s flexibility without a material benefit to stockholders. The Board normally supports company management’s decision on this issue.
BLANK CHECK PREFERRED STOCK Blank check preferred stock is authorized stock over which the board has complete discretion to set voting rights, dividend rates, and redemption and conversion privileges.	AGAINST	There is the potential for abusing this kind of stock by the board. Although some guidelines note that blank check preferred stock gives management great flexibility and this might be valuable and in the corporate interest, in general it is felt that this kind of flexibility, free of shareholder control, is insufficient justification for the creation of this type of stock.
BLANKET CEILINGS ON EXECUTIVE RETIREMENT BENEFITS Sets a maximum level on retirement benefits that are to be received by executives.	AGAINST	This provision would restrict management’s ability to provide compensation benefits. However, proposed benefits should be subject to shareholder review.
BLANKET COMPENSATION RESTRICTIONS Sets a maximum level of compensation.	AGAINST	Restricts management’s ability to provide competitive compensation to attract and retain talented personnel. Stock option plans, however, should be subject to shareholder review.
BOARDS – LIMITING THE SIZE	AGAINST	Directors need the flexibility of changing the size of the board based on the demands for various talents, skills, and knowledge that each director can contribute to the changing internal and external environment of the corporation.
CLASSIFIED BOARDS AND STAGGERED BOARDS	<i>The System opposes this issue in principle.</i> VOTING AGENT’S DISCRETION	<i>Although shareholders need some form of protection from hostile takeover attempts, and boards need tools and leverage in order to negotiate effectively with potential acquirers, a classified board tips the balance of power too much toward incumbent management at the price of potentially ignoring shareholder interests.</i>

ISSUE	POSITION	RATIONALE
CONFIDENTIAL VOTING A shareholder's voting position is kept confidential.	FOR	Shareholders, over whom management has some power (for example, employee shareholders, money managers who stand to gain or lose company business, banks, insurance companies and companies with interlocking boards), may be deterred from voting against management if they know their votes will become known to management. Companies that can discover who is voting in which way prior to the meeting also have an advantage not enjoyed by any shareholder supporting or opposing any issue on the ballot and in targeting those shareholders who vote against management and pressuring them to change their votes.
CORPORATE AFFIRMATION OF ITS NON-COERCIVE POLITICAL PRACTICES	AGAINST	This affirmation is intended to ensure that the corporation avoids a number of coercive political practices such as distribution of contribution cards in favor of one political party. Since these practices are illegal, the issue is moot.
CORPORATE BOARD MEMBERS SHOULD WEIGH SOCIO-ECONOMIC, LEGAL AND FINANCIAL FACTORS WHEN EVALUATING TAKEOVER BIDS	<i>Case-by-case basis.</i> VOTING AGENT'S DISCRETION	<i>While broad social and environmental issues are of concern to everyone, institutional shareholders, acting as representatives of their beneficiaries, must consider, specifically, the impact of the proposal on the target company. A decision on whether to support or oppose such proposals shall focus on the financial aspects of social and environmental proposals. If a proposal would have a negative impact on the company's financial position or adversely affect important operations, the System would oppose the resolution. Conversely, if a proposal would have a clear and beneficial impact on the company's finances or operations, the System would support the proposal.</i>
CUMULATIVE VOTING Allows each shareholder to take the voting rights he or she has with respect to director candidates and cumulates them to vote for only one director, or for a smaller number of directors.	FOR	Cumulative voting enhances shareholders' abilities to elect a single director or a small number of directors, thus increasing their ability to have a voice on the board even when they lack the voting power to affect change-in-control or other major decisions. Some fear that allowing cumulative voting can allow or encourage disruptive or predatory shareholders.
DIRECTORS, OFFICER AND EMPLOYEE COMPENSATION	The System supports company management in principle VOTING AGENT'S DISCRETION	This is normally automatically approved unless the program is exceptional or abusive. Directors should only be compensated in cash or stock, with the majority of the compensation in stock. The Board normally prefers to support company management's decision. The Board prefers that compensation issues be decided by a majority vote of the independent directors.
DIRECTORS – QUALIFICATIONS AND RESTRICTIONS Requires directors to own a minimum amount of stock; impose tenure limits; establishing a minimum or maximum age requirement	AGAINST	Establishing a minimum amount of stock ownership could preclude very qualified candidates from sitting on the board. Tenure limits and age restrictions could force out experienced and knowledgeable board members.
DIRECTORS – ELECTION OF DIRECTORS	The System supports company management in principle VOTING AGENT'S DISCRETION	It is prudent to vote for the prescribed full slate of directors as long as the slate of directors will conduct themselves in the best interests of the shareholders. At least two-thirds of the corporation directors should be independent. A director is deemed independent if his or her only non-trivial professional, familial or financial connection to the corporation or its CEO is his or her directorship.
DIRECTORS – REMOVAL BY SHAREHOLDERS	FOR	Shareholders should have the right to remove directors or fill director vacancies. Lack of such a policy could allow management to protect themselves from various shareholder initiatives.
DISCLOSURE OF OFFICERS, DIRECTORS AND INVOLVED OUTSIDERS' GOVERNMENTAL AFFILIATIONS	AGAINST	Miscellaneous issues include disclosures of lists of officers, directors, and involved outsiders who have served in any governmental capacity during the previous five years. In addition, disclosure includes the lists of law firms employed by the companies, rundowns on fees, and the revelation as to whether any elected or appointed official have partnership interest in the retained law firms. To the extent that potential conflicts of interest cannot be controlled by corporate procedures, professional ethics, and law, these disclosures will make no difference.

ISSUE	POSITION	RATIONALE
DIVERSIFICATION OF BOARDS	The System supports this issue in principle VOTING AGENT'S DISCRETION	Women and minorities have played major and responsible roles not only in government, higher education, law and medicine, but also in communications, electronics, and finance. The Board normally prefers to support diversification on company Boards. However, the Board recognizes that such a mandate carried out without regard to the selection of the most highly qualified candidates might not be in the best interest of these companies.
ELECTION OF THE AUDIT COMMITTEE <i>Section 404 of the Sarbanes-Oxley Act requires that companies document and assess the effectiveness of their internal controls. The Audit Committee should be comprised of the independent directors</i>	<i>The System supports this issue in principle</i> VOTING AGENT'S DISCRETION	<i>Companies with significant material weaknesses identified in the Section 404 disclosures potentially have ineffective internal financial reporting controls, which may lead to inaccurate financial statements, hampering shareholder's ability to make informed investment decisions, and may lead to the destruction in public confidence and shareholder value. The Audit Committee is ultimately responsible for the integrity and reliability of the company's financial information, its system of internal controls, and should be held accountable.</i>
EMPLOYEE STOCK OWNERSHIP PROGRAMS	The System supports this issue in principle VOTING AGENT'S DISCRETION	On the one hand, ESOPs have the potential for motivating and rewarding employees. On the other hand, there is concern about their use as management entrenchment devices and their potential dilutive effects on existing shareholder value. The Board believes that future purchasers must bear the same risk as current shareholders. Employee wealth obtained through stock ownership should be tied to shareholder value. The Board prefers no retroactive compensation. The Board supports the use of ESOPs.
EQUAL ACCESS TO PROXY STATEMENTS	AGAINST	Requires that all stockholders be provided unconditional access to the proxy process, including the phrasing of statements and arguments. Adoption of this provision risks incurring widespread confusion among shareholders and a flood of shareholder initiatives to make the proxy statement "...as heavy as the Chicago telephone directory." SEC rules and regulations already permit and define shareholder access to the proxy mechanism and tabulation.
EXECUTIVE COMPENSATION APPROVED BY THE BOARD OF DIRECTORS	FOR	While some corporations allow compensation issues to be left to management, it is more prudent to have a majority of the outside directors approve, on an annual basis, executive compensation, including the right to receive any bonus, severance, or other extraordinary payment to be received by such executive officer. The Board normally prefers to support the company's recommendation of executive compensation issues. However, the Board prefers that executive compensation issues be approved by a majority vote of the independent directors.
EXECUTIVE COMPENSATION GOLDEN PARACHUTES Golden parachutes are compensation arrangements that pay corporate managers after they leave their positions.	The System opposes this issue in principle VOTING AGENT'S DISCRETION	Golden parachutes can have a number of positive results: they can reduce management resistance to change, they help attract and retain competent talent, and they provide appropriate severance. Excessive golden parachutes not offered to other employees can damage their morale and can have a dilutive effect on shareholder wealth. A general rule is that the parachute should not exceed three times base salary. The Board is opposed to the payment of excessive executive compensation.
PROPOSALS TO LIMIT EXECUTIVE COMPENSATION OR OTHER BENEFITS	AGAINST	Executive pay should not be capped at a specified multiple of other workers' pay, nor should there be any limit to retirement benefits, nor a mandate that stipulates that there be salary reductions based on corporate performance.
EXECUTIVE COMPENSATION – STOCK OPTIONS	The System supports this issue in principle VOTING AGENT'S DISCRETION	Stock options align the interests of management with the interests of shareholders. The Board prefers that options should be issued at or above fair market value. There should be no re-pricing of underwater options (stock options with little or no value due to poor performance). Management must monitor the amount of dilution that stock options create. The Board normally supports the use of stock options as a part of executive compensation.
FAIR PRICING Fair price provisions prevent two-tier tender offers in which a buyer offers a premium price for only enough shares to obtain a controlling interest.	FOR	It is unfair to pay some shareholders (those that did not tender in the first group) less than other shareholders.

ISSUE	POSITION	RATIONALE
GREEN MAIL Greenmail is the practice of shareholders accumulating a large block of stock in a company, then selling the stock back to the company at an above market price in exchange for agreeing not to attempt to take control for a lengthy period of time	AGAINST	A vote of the holders of a majority of the outstanding shares of common stock, regardless of class, shall be required to approve any corporate decision related to the finances of a company which will have a material effect upon the financial position of the company and the position of the company's shareholders.
INCREASES IN THE NUMBER OF AUTHORIZED SHARES OF STOCK	The System supports this issue in principle VOTING AGENT'S DISCRETION	Companies need the flexibility of issuing additional shares for stock splits, stock dividends, financings, acquisitions, employee benefit plans and general corporate purposes. The Board prefers that increases should not exceed three times the number of existing outstanding shares.
INDEPENDENT REVIEW OF COMPANY OR PLANT OPERATIONS	AGAINST	An independent review of company or plant operations which will be provided at company expense to the shareholders to consider the cost of and alternatives to the present or proposed projects on the primary operation. This process would be costly and time-consuming.
LIABILITY AND INDEMNIFICATION OF OFFICERS AND DIRECTORS	FOR	This indemnifies the corporate officers and directors against personal liability suits as a result of their official status. This indemnification is necessary to attract and keep the best-qualified individuals.
LIMIT CORPORATE PHILANTHROPY	AGAINST	These proposals place restrictions and additional reporting obligations upon management's right to make corporate contributions to charitable, educational, community or related organizations. Most companies give money to charity. Because most companies must compete, those that do not contribute to charity risk damaging their good names.
MAJORITY THRESHOLD VOTING FOR THE ELECTION OF DIRECTORS	<i>The System supports this issue in principle</i> VOTING AGENT'S DISCRETION	<i>Under a plurality system, a board-backed nominee in an uncontested election needs to receive only a single affirmative vote to claim his or her seat in the boardroom. Even if holders of a substantial majority of the votes cast "withhold" support, the director nominee wins the seat. Under the majority vote standard, a director nominee must receive support from holders of a majority of the votes cast in order to be elected (or re-elected) to the board.</i>
LINKED PROPOSALS Combining more than one proposal.	The System opposes this issue in principle VOTING AGENT'S DISCRETION	Linked proposals often include "sweeteners" to entice shareholders to vote for a proposal (that includes other items) that may not be in the shareholders' best interest. The Board normally opposes linked proposals where one or more of the linked proposals are in opposition to the Board's proxy position.
MERGERS AND ACQUISITIONS	The System supports this issue in principle VOTING AGENT'S DISCRETION	Case-by-case votes are recommended on mergers or acquisitions since the circumstances by which they arise are unique. The Board supports the company management's decision on mergers and acquisitions when such decision is based upon the findings of a thorough due diligence process and is in the best interest of the shareholders.
OBLIGATION OF BOARDS TO ACT OF SHAREHOLDER PROPOSALS RECEIVING MAJORITY SUPPORT <i>To ensure that the voices of the owners of the firm are heard.</i>	The System supports this issue in principle VOTING AGENT'S DISCRETION	<i>Boards are responsible for ensuring that the voices of the owners of the firm are heard. If the majority of shareholders have indicated they desire a particular governance change, the board should support the proposal in question.</i>
ONE SHARE, ONE VOTE Each share of common stock, regardless of its class, shall be entitled to vote in proportion to its relative share in the total common stock equity of the corporation.	FOR	The right to vote is inviolate and may not be abridged by any circumstances or by any action of any person. Each share of common stock, regardless of its class, shall be treated equally in proportion to its relative share in the total common stock equity of the corporation, with respect to any dividend, distribution, redemption, tender or exchange offer. In matters reserved for shareholder action, procedural fairness and full disclosure are required.

ISSUE	POSITION	RATIONALE
POISON PILLS A method used by boards, which prevent anyone from acquiring a large portion of the company stock for a corporate takeover.	The System opposes this issue in principle VOTING AGENT'S DISCRETION	Poison pills can consist of a wide variety of provisions adopted by boards without shareholder approval, designed to make it financially unattractive –indeed, often financially devastating -- for a shareholder to purchase more than a small percentage of the company's stock, often by triggering the creation of a large number of new stocks or warrants that dilute the offending shareholder's interest to the point of making it virtually valueless. The Board is normally opposed to the use of poison pills.
POISON PILLS – ALLOW FOR SHAREHOLDER VOTE	FOR	Since poison pills ultimately impact the wealth of shareholders, the Board supports voting measures that allow for the shareholders to vote on matters pertaining to the use of poison pills.
PREEMPTIVE RIGHTS Provides current stockholders an option to maintain their relative ownership position.	AGAINST	Preemptive rights require a company issuing new shares to offer them to their existing shareholders first, in proportion to their existing holdings. This gives current shareholders the ability to maintain their relative equity position as a shareholder. Preemptive rights generally have limited importance, given the increase in the size and liquidity of the secondary market and their potential for abuse.
RE-INCORPORATION	The System supports company management in principle VOTING AGENT'S DISCRETION	Corporations may wish to reincorporate in another state to take advantage of favorable corporate law, while providing maximized shareholder values and operational flexibility. On the other hand, reincorporation laws of other states could be such as to limit shareholder rights or reduce shareholder wealth. The Board normally supports company management's decisions on re-incorporation matters.
ROTATION OF AUDITORS	The System supports company management in principle VOTING AGENT'S DISCRETION	Auditors should be approved by a majority of independent directors (or if there are fewer than three such directors, the unanimous approval of all such outside directors) on an annual basis. The Board normally supports company management's decision on the selection of auditors.
SEPARATE CHAIR AND CEO	The System supports this issue in principle VOTING AGENT'S DISCRETION	A CEO who also heads a board is less accountable than one who must answer to an independent chairman as well as fellow directors. However, there could be times when it makes sense for one person to wear two hats. On balance, there appears to be more gained and less lost from separating the two jobs at major companies. The Board generally favors the separation of the chairman and CEO. However, the Board believes it may be in the best interests of corporation and the shareholders to have one person fulfilling both positions in smaller companies.
SHARE REPURCHASES Corporations buy back a portion of the outstanding shares.	FOR	The Board normally favors of share repurchase plans if the company boards feel that the stock is undervalued or there is a legitimate corporate purpose.
SHAREHOLDER ADVISORY COMMITTEES	The System supports this issue in principle VOTING AGENT'S DISCRETION	It is often difficult for directors to communicate to and hear from shareholders, because shareholders tend to be numerous, unidentified, dispersed, and silent. This proposal establishes committees of shareholders to make communication easier and more effective. However, establishment of such committees can be time consuming and expensive. The Board prefers the establishment of such committees where there is no other available mechanism to communicate with the company boards.
SHAREHOLDER'S RIGHT TO ACT INDEPENDENTLY OF MANAGEMENT	FOR	These include giving shareholders the ability to call a special meeting of shareholders without management's consent, and the ability to act by written consent (saving the costs and difficulties of holding a meeting). Most corporations support the retention, restoration, or creation of these rights. Shareholders need realistic mechanisms to protect their interests in situations where their interests are not aligned with management interest.
STAKEHOLDERS' INTEREST BEFORE OR EQUAL WITH SHAREHOLDERS' INTEREST	ABSTAIN	Stakeholders include customers, suppliers, employees, communities, creditors and shareholders. Stakeholders are important to the success of the corporation and therefore the interests of each must be considered by directors and management. However, boards should not put the non-shareholder/stakeholder interests ahead of or on an equal footing with shareholders in terms of the corporation's ultimate purpose.
SUPERMAJORITY PROVISIONS Voting majority that is higher than those set by state law.	AGAINST	Sets a level of approval for specified actions that is higher than the minimum set by state law. These requirements often exceed the level of shareholder participation at a meeting, making action that requires a supermajority all but impossible.

ISSUE	POSITION	RATIONALE
TARGETED SHARE PLACEMENTS Placing stock in the hands of friendly investors	The System supports company management in principle VOTING AGENT'S DISCRETION	Targeted share placements (or "White Squire" placements) occur when a company puts large blocks of stock or convertible securities into the hands of a friendly investor or group of investors. This is often an inexpensive method of raising cash for a company. The Board prefers that company management seeks authorization before establishing a targeted share placement but supports this corporate action.
VOTES TO ABSTAIN MEANS A CASTED VOTE	FOR	Counting abstained votes in the total pool of all votes cast.