



RICHARD H. MOORE
STATE TREASURER

North Carolina Department of State Treasurer

325 NORTH SALISBURY STREET
RALEIGH, NORTH CAROLINA 27603-1385

July 1, 2002

For Immediate Release
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STATE TREASURER RICHARD MOORE ANNOUNCES LANDMARK PUBLIC PENSION FUND INVESTMENT INITIATIVE

RALEIGH – As North Carolina’s State Treasurer, Richard Moore manages the 10th largest public pension fund in the United States and the 24th largest in the world. Add to that the funds managed by Moore’s counterpart New York State Comptroller H. Carl McCall, and you have total investment portfolio of nearly \$170 billion. When that much money talks, Wall Street takes notice.

That’s why Treasurer Moore and Comptroller McCall have teamed up with New York State Attorney General Eliot Spitzer to launch a major initiative to establish stronger corporate disclosure standards for investments made with public pension funds, the money that pays the retirement of public workers. Under this initiative, which Moore and McCall as sole trustees have implemented for their respective pension fund investment portfolios effective immediately, the North Carolina Public Employees’ Retirement Systems and the New York State Common Retirement System will require the following of investment banking and money management firms that do business with the two pension funds:

- Investment banking firms must adopt the conflict of interest principles set forth in the agreement that New York Attorney General Spitzer reached with Merrill Lynch in May of 2002 (referred to as the “Spitzer Principles.”)
- Money management firms must make disclosures regarding portfolio manager and analyst compensation, the use of any broker dealers that have not adopted the Spitzer Principles, and any potential conflicts of interest arising from client and corporate parent relationships.
- Money management firms must adopt safeguards to ensure that there are no potential conflicts of interest as a result of the method compensation is provided to analysts that could influence investment decisions made on behalf of the pension funds.

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- Money management firms must scrutinize more closely the auditing and corporate governance practices of companies in which pension fund monies are invested.

“Recent conflict of interest and insufficient corporate governance stories coming out of Wall Street firms have shaken the confidence of investors, big and small,” said Treasurer Moore. “On behalf of the hard-working public employees and retirees whose pension funds Comptroller McCall and I manage, we are using our clout as large public fund investors to set a higher standard. Because people are counting on us to ensure their pension funds are secure, we must be able to know the information we use to make sound, prudent investment decisions is reliable.”

“I have been working for months on common sense, market-driven solutions that will ensure that our funds are invested safely. I am grateful for Attorney General Spitzer’s guidance and to Comptroller McCall for joining this effort.”

California Treasurer Philip Angelides today also pledged his support for these measures, and will attempt to get them adopted by CalPERS and CalSTRS (both \$100 billion plus California public employee pension funds).

“I am today sending out a letter to other pension fund managers encouraging them to adopt similar measures, and will also be reaching out to other large investors. Public pension funds also have assets of about \$2.3 trillion. I am, therefore, confident that we can build enough support to bring about significant change, with or without Congressional or administration action.”

The North Carolina and New York pension funds contract with dozens of investment banking firms, and requiring those firms to adhere to the Spitzer Principles will benefit all investors, not just pension funds. In addition, public confidence in the stock market has a great impact on the future growth of the pension funds. Adoption of these principles should help restore confidence in the marketplace, which will have a positive impact on both pension fund beneficiaries and individual investors.

A copy of the Public Pension Fund Investment Protection Principles adopted by North Carolina and New York is attached.

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STATE AND PUBLIC PENSION FUND
INVESTMENT PROTECTION PRINCIPLES

A. Effective July 1, 2002, every financial organization that provides investment banking services and is retained or utilized by the State Treasurer of North Carolina, the Comptroller of New York State or the State Treasurer of California (hereinafter “the State Investment Officers”), including but not limited to organizations retained by the North Carolina Public Employees Retirement Systems and the New York State Common Retirement Fund (hereinafter “the Pension Funds”), should adopt the terms of the agreement between Merrill Lynch & Co., Inc. and New York State Attorney General Eliot Spitzer dated May 21, 2002 (hereinafter “the Investment Protection Principles”). In retaining and evaluating any such financial organization, the State Investment Officers will give significant consideration to whether such organization has adopted the Investment Protection Principles.

The Investment Protection Principles are as follows:

- sever the link between compensation for analysts and investment banking;
- prohibit investment banking input into analyst compensation;
- create a review committee to approve all research recommendations;
- require that upon discontinuation of research coverage of a company, firms will disclose the coverage termination and the rationale for such termination; and
- disclose in research reports whether the firm has received or is entitled to receive any compensation from a covered company over the past 12 months.
- establish a monitoring process to ensure compliance with the principles;

B. Effective July 1, 2002, every money management firm retained by a State Investment Officer, as a condition of future retention, must abide by the following:

1. Money management firms must disclose periodically any client relationship, including management of corporate 401(k) plans, where the money management firm could invest State or Pension Fund moneys in the securities of the client.
2. Money management firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients.
3. Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the Investment Protection Principles.
4. Money management firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions of the money management firm. Each money management firm shall provide the State Investment Officers with a copy of the safeguards plan and shall certify annually to the State Investment Officers that such plan is being fully enforced.
5. In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company.
6. In deciding whether to invest Pension Fund moneys in a company, money management firms must consider the corporate governance policies and practices of the subject company.
7. The principles set forth in paragraphs 5 and 6 are designed to assure that in making investment decisions, the money management firms give specific consideration to the subject information and are not intended to preclude or require investment in any particular company.



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North Carolina State Treasurer Moore announces landmark public pension on July 1, 2002. He is joined by Leigh Hammond (left) from the North Carolina Retired Governmental Employees' Association and Lacy Presnell (right) with North Carolina Retired School Personnel.

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