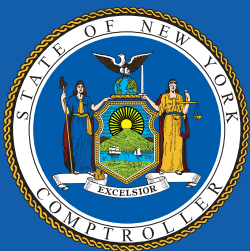


INVESTING IN
New York State

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Thomas P. DiNapoli » New York State Comptroller

OFFICE OF THE STATE COMPTROLLER

Public Pension Dollars at Work in New York State's Economy

The New York State Common Retirement Fund has a powerful, far-reaching impact on the economy of New York State. The third largest public pension plan in the country, valued at \$180.7 billion as of July 31, 2014, the Fund is putting public pension dollars to work in every corner of the State. It also paid out nearly \$10 billion to retirees, strengthening the tax base, supporting local businesses and spurring job growth.

Within the Fund's diversified investment portfolio, New York-based companies, properties and investment vehicles are represented in nearly every asset class, encompassing large multinational corporations such as IBM and GE as well as modest-sized apartment complexes and small businesses across the State.

The Fund also operates a number of programs designed specifically to target attractive investment opportunities in New York State. These programs are investment programs first and foremost; like all the Fund's investments, and in accordance with the Comptroller's fiduciary duty as trustee, opportunities in New York are evaluated on their potential to obtain an appropriate risk-adjusted return comparable to other similar investments for Retirement System members, retirees and beneficiaries. In addition to earning a solid investment return for the Fund, these programs offer the added bonus of strengthening the State's economy, providing capital to promising enterprises and creating jobs.

This report presents an overview of three programs through which the Fund invests directly in the future of New York State: the In-State Private Equity Investment Program (\$1.25 billion commitment; \$729 million invested in 282 companies); the New York Business Development Corporation small business loan program (\$346 million loaned to over 1,000 companies); and the Community Preservation Corporation's affordable housing program (\$665 million for 440 mortgages supporting 17,000 housing units).

THE \$180.7 BILLION NEW YORK STATE COMMON RETIREMENT FUND IS PUTTING PUBLIC PENSION DOLLARS TO WORK IN EVERY CORNER OF THE STATE BY:

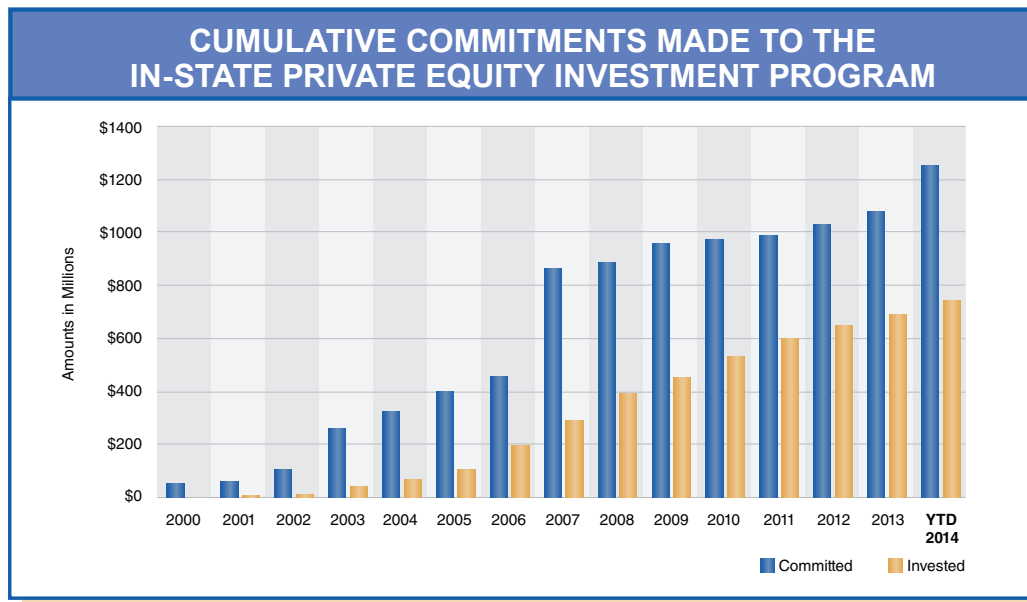
- Investing \$729 million in large and small businesses committed to expanding in New York.
- Providing millions in capital—\$23 million last year alone—to spur small business growth.
- Investing in affordable housing valued at over \$665 million.

The In-State Private Equity Investment Program

Created in 1999, the In-State Private Equity Investment Program invests in private equity funds that target startup, emerging and established businesses throughout New York State. Seeking opportunities that can generate appropriate risk-adjusted returns, the Fund has built a portfolio of New York investments that is diversified by geography, stage of investment, transaction type and industry. Although the Program includes a concentration of investments in the State's burgeoning high-tech sector, the Fund considers opportunities in every type of industry, so long as they exhibit strong growth potential. The 18 private equity firms that partner with the Fund to identify and manage investments are located throughout the State and actively seek out investments in all regions.

Private equity is a long-term investment, generally undertaken for a period of five years or longer. The Fund typically participates in a private equity investment as a limited partner in conjunction with a general partner who provides management expertise, strategic direction and other services as well as capital. The specific focus of the Private Equity Program has helped answer a need for capital in New York, as well as providing strong returns for the Fund.

Since the Program's inception, the Fund has invested \$729 million in 282 New York companies, with over 70 percent of those investments occurring in the last seven years. Comptroller Thomas DiNapoli has also increased the Fund's total commitment to the program from \$453 million in 2007 to \$1.25 billion in 2014.



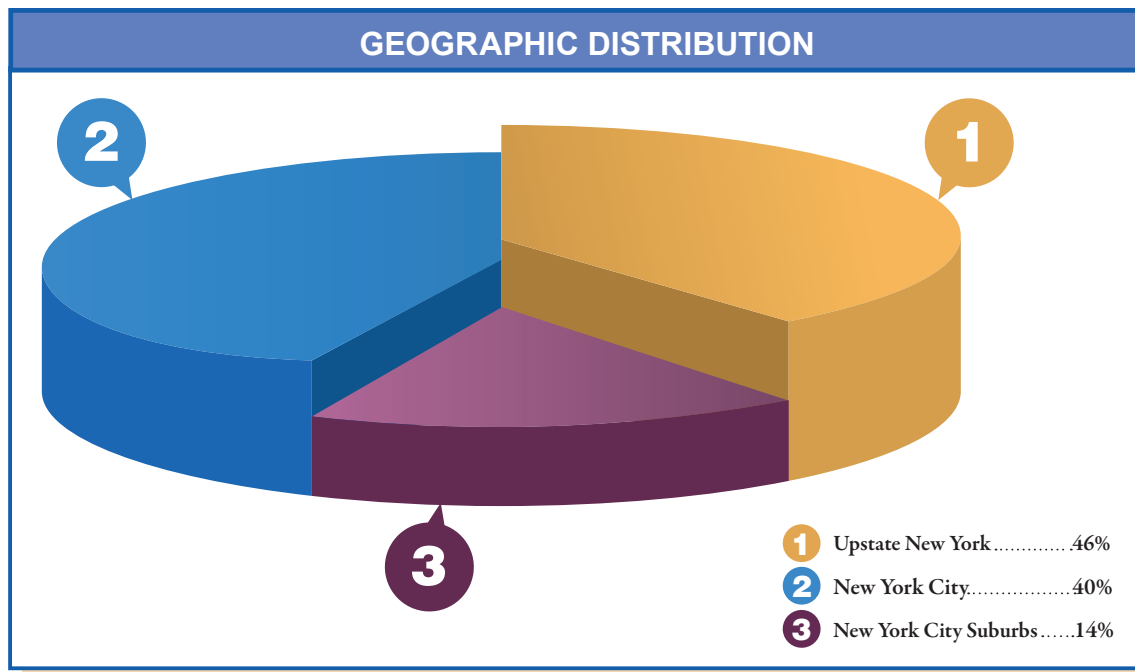
The Fund's private equity investments cover a full range of investment stages, including venture capital for new businesses, growth equity for established companies that are seeking to expand, and buyout funding for expansion-ready businesses that are undergoing an ownership transition. Of the \$1.25 billion committed by the Fund, \$444.5 million has been allocated to firms focusing on venture capital, \$382.1 million to funds providing buyout and growth equity, and \$425 million to funds that pursue co-investments across stages.

Diversification by Industry. The Private Equity Program invests in a broad range of industries, reflecting the size, economic diversity and dynamic business environment of New York State. The rapid growth of New York's high technology sector, fueled by cutting-edge research institutions and a well-educated workforce, has naturally made high-tech an appealing focus for private equity investment.

Information technology, including software development and business services, is one important area of high-tech investment with considerable potential for further growth. In addition, almost one-quarter of the Program's invested capital has been devoted to businesses in the life sciences and biotechnology, including medical devices and equipment, pharmaceuticals, patient services and health-related Internet applications. The Program has also invested in companies that are developing new technologies in clean energy, materials science and Internet infrastructure and content.

The Fund's private equity managers have identified a wide array of attractive opportunities in more conventional businesses as well. In fact, the Program has invested in a safety equipment distributor, a mattress retailer, and manufacturers of cosmetics, swimming pool components, and paperboard products, among others.

Geographical Diversification. The Private Equity Program has uncovered many attractive investment opportunities that existed beneath the radar of the national private equity community, and the Fund’s experience combined with the range of expertise represented by its 18 private equity managers has reinforced the Program’s basic orientation to geographic diversity. Almost half of the capital invested through the Program thus far has gone to investments located upstate.



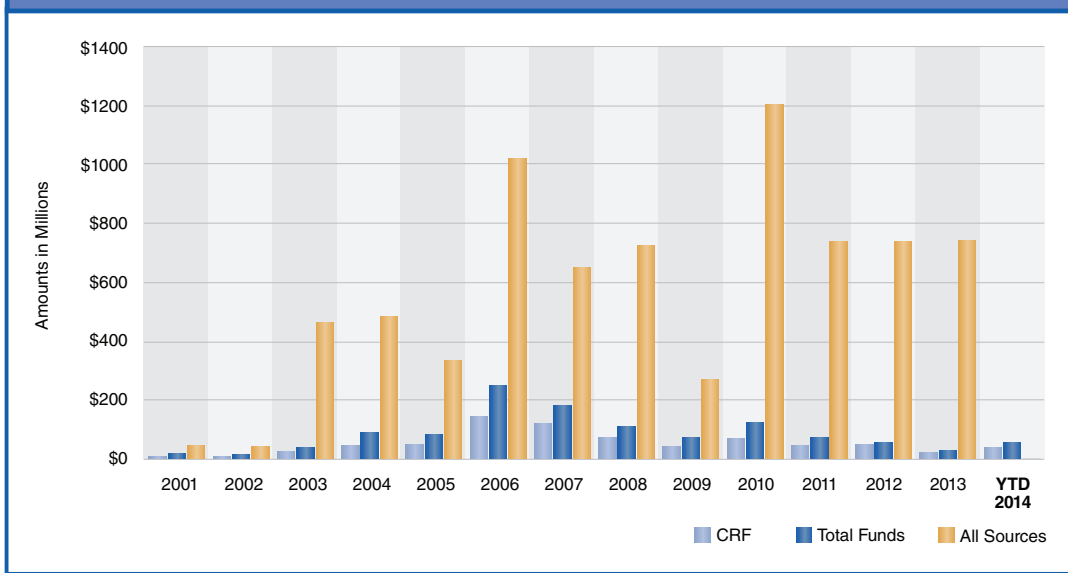
New York City, with its vibrant group of startups and an expanding technology sector, is the largest market for investment capital for the Program among the State’s regions (\$294 million). The Finger Lakes (\$89 million), Capital District (\$75 million), Mid-Hudson Valley (\$71 million) and Western New York (\$65 million) are the next largest markets for private equity investment from the Fund.

Program Results. One of the first programs of its type in the country, New York’s In-State Private Equity Investment Program remains a leader in the field, generating strong returns for the Common Retirement Fund while helping grow the State’s economy.

As of the end of 2012, 71 of the Program’s investments had been completed or “exited,” generating a cumulative \$293 million for the Fund on \$179 million invested, for an internal rate of return of approximately 20 percent. Companies receiving capital through the Program employ almost 18,000 people and have added some 4,000 jobs since the Fund’s investment.

Moreover, the impact of the Fund’s capital is magnified by the funds provided by other investors, which the Fund’s participation helps attract. To diversify risk and leverage its investment, the Fund prefers that private equity managers working with the Program seek additional capital from other sources. Through June 2014, other investors in the same funds had added \$484 million to the Fund’s \$729 million in capital, for a total of \$1.21 billion. This leverage is further increased when capital from all sources, including bank loans, is considered: a total of \$6.7 billion—close to ten times the Fund’s capital—was provided to 282 companies.

CAPITAL INVESTED BY SOURCE IN CRF PORTFOLIO COMPANIES



When the Fund successfully exits an investment and generates a return, the increased tax base and jobs created represent an added benefit to the State. Not every private equity investment succeeds, of course, and not every successful investment generates new jobs, but the overall success of the Program enhances the environment for sustainable economic growth, job creation and retention, and business innovation in New York State.

The following examples of recently exited investments suggest the range and character of the Program's achievements:

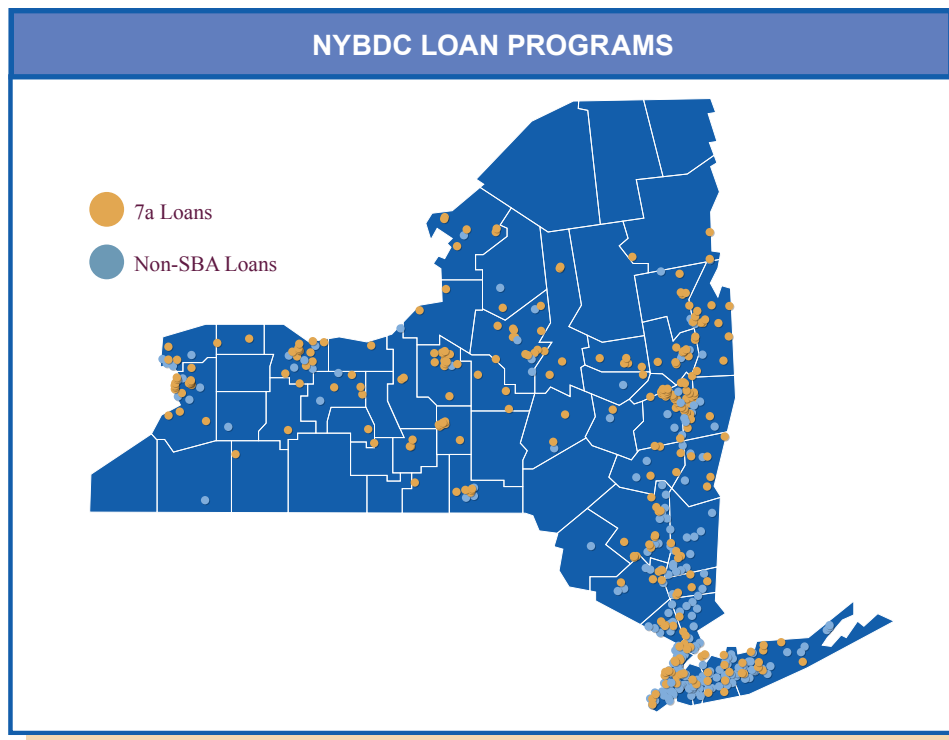
- The sale of a Manhattan-based software company in 2012 earned the Fund \$43 million on an investment of \$2.8 million—15 times the original 2008 investment.
- The 2012 sale of an Internet game company in New York City yielded almost 4 times the Program's original investment.
- A Rochester telecommunications company sold in 2014 for 3.8 times the Fund's investment.
- The 2014 sale of a Long Island insurance business generated 2.4 times the original investment.
- The sale of the Fund's interest in a software company in East Greenbush produced 5 times the original investment in 2014.
- The sale of a Rochester-based biotechnology company in 2014 earned the Fund 6 times its original investment.

For more detailed information on the In-State Private Equity Investment Program, please see the September 2013 update report in the Pension Fund Management section of the Comptroller's website.

The New York Business Development Corporation

In 1987, the Common Retirement Fund established a lending partnership with the New York Business Development Corporation (NYBDC) to provide capital for small business loans throughout the State. Designed to promote opportunity and prosperity, NYBDC loans can be used by qualified borrowers as working capital or to acquire property and equipment, helping entrepreneurs start new businesses and expand existing enterprises. NYBDC loans support the creation or retention of an estimated 9,000 private sector jobs each year.

Since the program began, the Fund has provided \$346 million in loans to more than 1,000 small businesses, which employ over 21,000 people. Loans have been made to a wide variety of businesses in all 62 New York counties and in every type of community, urban, suburban, small town and rural.



In 2010, Comptroller DiNapoli committed an additional \$100 million to the program. NYBDC made 48 loans totaling \$23 million with Fund capital in fiscal 2014. While consistently meeting the Fund's return targets for investments in this class, the program has also exceeded its goals for participation by minority- and women-owned business enterprises (MWBEs) in recent years, with 35 percent of loans since 2009 awarded to MWBEs. More than \$1 million in loans have been granted to businesses started or owned by U.S. military veterans.

The Community Preservation Corporation

Since 1991, the Common Retirement Fund has been an important partner of the Community Preservation Corporation (CPC)—a nonprofit mortgage lender—in its efforts to revitalize communities and create affordable housing. The CPC provides capital for new and renovated housing for moderate- and low-income families throughout New York State, as well as supporting housing for senior citizens and people with special needs. Established in 1974, the CPC has invested \$8.4 billion in over 157,000 units in multifamily developments over the past four decades.

As of July 2014, the Fund had purchased 440 CPC mortgages valued at \$665.5 million, enabling the provision of 16,965 units of affordable housing to New York families. This portfolio achieves an average return of 6 percent, which is consistent with the long-term fixed income investment market. In April 2014, Comptroller DiNapoli announced an additional \$200 million commitment to the CPC, which will finance about 3,500 units of affordable housing over the next three years.

Conclusion

Comptroller DiNapoli and his staff have an unwavering commitment to managing the Fund in the best interests of Retirement System members, retirees and beneficiaries, grounded in the Comptroller's fiduciary duty as trustee of the Fund. The Fund's experience with these New York-based programs has shown that the careful, creative investment of Fund resources can generate additional benefits.

This report is not intended as a request for or advice that other investors or venture capitalists invest in the Fund's portfolio funds. The investments described herein, which are generally not liquid and carry relatively high risk, are not suitable for all investors. The returns that the Fund has earned in these investments are due in large part to its ability to invest for the long term and to manage its In-State investments as part of a large and diverse portfolio with expert investment and legal advice.