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NEW YORK CITY TEACHERS RETIREMENT SYSTEM
INVESTMENT MEETING
Held on
Thursday, February 9, 2012
at
55 Water Street,
New York, New York

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ATTENDEES:

MELVYN AARONSON, Chairperson, Trustee
LARRY SCHLOSS, Comptroller's Office, Trustee
SANDRA MARCH, Trustee
MONA ROMAIN, Trustee
JANICE EMERY, Office of Management and Budget
SEEMA HINGORANI, Comptroller's Office
BARRY MILLER, Comptroller's Office
LIZ CALDAS, Comptroller's Office
MARC KATZ, Teachers' Retirement System
SUSAN STANG, Teachers' Retirement System
MICHAEL KOENIG, Hamilton Lane
ROBIN PELLISH, Rocaton
MICHAEL FULVIO, Rocaton
CHRIS LYON, Rocaton

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P R O C E E D I N G S

(Time noted: 9:42 a.m.)

MR. KATZ: Good morning. Welcome to the February 9th investment meeting of the Teachers' Retirement Board. We are going to begin the meeting with the calling of the roll.

Mel Aaronson?

MR. AARONSON: Here.

MR. KATZ: Kathleen Grimm? Not here.

Sandra March?

MR. AARONSON: Sandra March called and said she would be a few minutes late.

MR. KATZ: Thank you.

Janice Emery?

MS. EMERY: Here.

MR. KATZ: Frieda Foster? Not here.

Mona Romain?

MS. ROMAIN: Present.

MR. KATZ: Larry Schloss?

MR. SCHLOSS: Here.

MR. KATZ: Okay, we have a quorum so we are able to begin.

Mr. Chairman?

MR. AARONSON: Thank you very much,

0004

Marc.

First we are going to go over the public agenda and we are going to start with the passport funds and their public report.

MR. LYON: Good morning.

MS. ROMAIN: Good morning, Chris.

MR. LYON: Today I am going to start by talking about the Diversified Equity Fund and I am going to review materials that were distributed in advance. And hard copies were circulated as well this morning.

And I will start with the first page of the Diversified Equity Fund and all this information is through yearend. We will also review it in detail when we do the quarterly reports, which are typically the next. We can see that the total assets at yearend were approximately $9.2 billion and you can see how those were allocated across all the different investment manager strategies and composites. All the composites were relatively in line, roughly within a percent and a half of their respective targets, due to the ongoing monthly rebalancing program that we have in place.

When you flip ahead to look at the

0005

performance, you can look at page 3 in the middle of the page. The total Diversified Equity Fund performance for the month of December was approximately half a percent, so a positive half a percent return. That slightly trailed the broad U.S. equity market which was a little closer to the hybrid benchmark. And if you look at kind of what the sources of return were, basically what brought the fund down was its exposure to non-U.S. equities. And I think everyone knows that it's been a rough year to be a U.S.-based investor in non-U.S. equities or really any investor in most currency bases in non-U.S. equities. Particularly given developments in Europe and emerging markets, et cetera, performance of non-U.S. equities for the year has been much weaker for U.S. equities than 2011 and you can see that if you look over to the "Year-to-Date" column which is of course the same as the one-year column. This fund net of all fees was down 60 basis points, so a fraction of a percent for the full year. Considering the wild ride of the year, those look like a pretty flat experience. But, as

0006

we know, there were pretty significant ups and downs along the way. And, again, you can see that if you looked at the one-year performance of the major composites, half the fund roughly is invested in the indexing.

If you look at the top on page 2 for the one-year period, that was up about a percent. The defensive composite was particularly helpful for the year, up more than 5-1/2 percent net of fees. The active managers were up around 1-1/2 percent and the international was down more than 12 percent. So the defensive composite did serve to help during the volatile period, so it performed as hoped and designed. No guarantee to always do that, but it did function well. And the international composite over other time periods has added to the diversification and return-investments periods, but did not during this particular period.

So any questions on this particular report?

Okay, then several other of the passport choices, the International Equity Inflation Protection and Socially Responsive Equity

0007

funds are profiled on a separate handout also through yearend. And you can see at the top left the total asset values about 68 million, 26 million and 34 million respectively in different options, and you can see the performance. For the month, you can see the International Equity Fund was down 1.24 percent, slightly behind the EAFE benchmark. For the one-year period it was within about 16 basis points of the EAFE benchmark, down 11.9 percent. Down 11.9 percent for the year.

The Inflation Protection Fund returned a positive 0.6 percent for the month and a positive 2.36 percent for the year. That did trail for the one-year period the TIPS benchmark, but what we were expecting from this fund is to outpace inflation over a long time period. For this particular one-year period the fund performed somewhat close to inflation, but didn't outpace it as you can see from the report.

And, lastly, on page 1 of this handout you can see the Socially Responsive Fund is down about half a percent while the U.S. equity market was slightly positive for the

0008

month of December. And for the year-to-date period was down about 1-1/2 percent roughly again, while the U.S. equity market and S&P benchmarks specifically had a modest positive return. So some relative underperformance during this particular period.

But if you flip to the next page, as has been the case most of the time that we talked about these funds in recent months, since inception of these funds, since mid-2008, on an annualized basis the international option is more than 4 percent annualized net of fees, ahead of its benchmark still. The inflation protection option is more than half a percent annualized net of fees, ahead of its benchmark. And the Socially Responsive Equity Fund is more than 2 percent annualized net of fees, ahead of its benchmark all since inception. So overall the longer-term performance of these funds continues to be, on a relative basis, something that we think is very reasonable.

Lastly, the preview of January you can see that for U.S.-based investors and investing in the U.S. equity markets and in

0009

the EAFE markets, that it was about a plus 5 percent month for equities. So whether it was the Russell 3000 or EAFE was good news. Generally speaking, not -- depending on which part of the fixed income market you were in, it was kind of flat to a little bit positive. And we have estimated that if we track the hybrid benchmark perfectly, which we don't -- we know we don't, but if we did, a good proxy for the estimated returns for January on the fund is 4.77 percent. And a good proxy is based on the underlying mutual funds for several of the other passport options shown, but the all asset fund was way above TIPS for the month of January. That's the good news. And the Neuberger Fund was up about 3 percent, but not quite as high as its benchmark.

So just a preview and then when we come to the next meeting and present the performance through January 31st. We will also incorporate into this format the reporting that we do on the Bond Fund, formerly the Stable Value Fund, now that it's a market value option. And so you will see

0010

that starting in next month's report.

Any questions?

MR. AARONSON: Seeing none, is that the conclusion?

MR. LYON: That's everything we have for the public session for the variable funds. Thanks.

MR. AARONSON: Now we are moving to the pension fund public.

MR. SCHLOSS: Everybody has their monthly package? Okay, great.

Next month we are going to have an outside economist come, so I will skip through the bulk of the economic slides because I am sure they will have some prettier slides or different slides, maybe not prettier. The bottom line of the economic slides are slow -- I wouldn't call it steady, but slow growth. Only 2 percent in the United States, Europe going into a recession, and persistent high unemployment which is slowly drifting down but is dragged down by the moribund housing market.

If you go to page 22, 22 is the VIX. As of this point it was a hell of a fall, but

0011

things have calmed down. Things have calmed down predominantly because the ECB flooded the banks with cheap capital for three years and things just got calm because the banking crisis in Europe was temporarily averted. Hasn't really gone away, but it makes people feel a lot better.

The other consequence of that is the banks can now buy the sovereign debt, so sort of a circle going on. Cheap funding buy the sovereign debt, sovereign debt rates go down and everyone lives for a better day. So as much as these December numbers that we are going to go through, January was a great month so I am sure we will have a great meeting next month.

Page 23 you can see the feds busy at work. Again, they are trying to get the seven to ten-year part of the curve down and it's a work in progress. It's the white line. Try not to bet against the fed at the end of the day. Overall, ten-year rates hovering around 2 percent.

Most importantly -- not most importantly, importantly on page 25 it's the

0012

corollary of the VIX coming down, spreads are starting to narrow again with the high-yield market getting healthy very, very quickly as people are taking a little more risk.

If you go to page 28, you can see in general equities remain cheap. The top one is the Russell 3000, next one is EAFE, and the last one is emerging markets. We will get to what we are doing about that in a second.

On page 30, again sort of cardiac arrest and then all of a sudden things got calm literally with the new year, so you see the markets are up to 4, 5, 6 percent since the beginning of the year.

If you go to page 32, what does that mean for the fund? Through the end of the year it was at 42 -- 41.2 billion. We are probably in excess of $43 billion again, again probably end of January. So we are pushing the peak of 43.7.

If you remember -- we are going to page 34, asset allocations and page 35 asset allocations -- so there is a lot of moving around, particularly with the choppy markets. So you may recall we had cash that peaked

0013

around 8 or 9 percent. As of December, it was 5.3 percent. We put some money back into the high-yield markets recently as well as emerging market equities, so by the end of February we should be down in the 3 percentage range. So we are working our way back into being invested.

You will recall that we just finished the emerging market managers RFP so we got some new managers, so we are going to work our way again the emerging market equities up to where it's supposed to be. We are going to do it gradually. And, again, one of the disappointments has been our ability to fund our opportunistic fixed income managers. Completely tied up in contracts. I think we are going to have a break through this week with one of the bigger ones, so we will get them funded slowly. But again that's coming out of cash, so the cash is correctly coming down now.

That said, if you go to page 36, 36 is still a work in progress. You may recall that we have the policy targets and then we have the parking places, which gets you to the

0014

"Adjusted Policy" column. Again, still a work in progress, but we are still tilted very much to public equities. If you look at the actual versus the adjusted policies versus the range which is the high-yield adjusted 2000 range, so some combination of a little less EAFE, little more emerging markets in the future is coming our way as we continue to rebalance toward the new asset allocation.

If you look on page 37, you can see in December the markets were pretty benign. Again, the far left side is the equity markets. U.S. markets were up a point, international markets were down a point, and fixed income was up 2 or 3 percent.

That translated on the next page, page 38, to we are up about 61 basis points in the month, fiscal year-to-date is down about 4. I know we made up more than that in January so we are probably positive now for the fiscal year and hopefully if the markets cooperate we will continue to make money for the rest of fiscal year. The rest are all the managers by managers. They are all still, in my opinion, recovering from the volatility. Some are

0015

ahead; some are behind. No one has shot the lights out in one direction or the other, but there is a little more red on here than we would like. Hopefully that will get made up as the markets calm down.

So the good news is the current shocks in the fall are in the past and hopefully we get some stabilized markets for the rest of the fiscal year, but that kind of ends the report unless anyone has any questions.

MR. AARONSON: Anybody else?

Let the record show that Sandy March has arrived.

Okay, since we have finished the public part of our agenda, do I hear a motion?

MS. MARCH: I move that we go into executive session for purposes of discussing sales and securities.

MS. EMERY: Second.

MR. AARONSON: Any opposition?

(At this time, the meeting was conducted in executive session)

MS. MARCH: I move that we go back into public session.

MR. AARONSON: Is there a second?

MR. SCHLOSS: Second.

MR. AARONSON: Is there any discussion?

Okay, we are back in public session and now we are going to get a report from Susan on the two meetings that we just had.

MS. STANG: Great.

In the executive session of the variable fund, an update on fund managers was presented. An update of the transition from the Stable Value Fund to the Bond Fund was provided and two presentations by investment managers were received.

In the executive session of the pension fund an update on one manager on the watch list was presented. A presentation on asset allocation update on capital market consumption was received and discussed. There was a quick update on our private equity consultant, presentations from two private

0122

equity investments were received, consensus was achieved which will be announced at the appropriate time. There was a discussion about the structure of the private equity emerging manager program, consensus was developed which will be announced at the appropriate time. A general update on the structure of the private equity program was presented and an attorney-client privileged session to two litigation matters were discussed.

MR. AARONSON: Thank you very much. Is there anybody with any other business before the board?

Do I hear a motion?

MS. ROMAIN: Move to adjourn.

MR. AARONSON: Do I hear a second?

MR. SCHLOSS: Second.

MR. AARONSON: Any discussion?

We are adjourned.

[Time noted: 12:41 p.m.]

0123

C E R T I F I C A T E

STATE OF NEW YORK)
: ss.
COUNTY OF QUEENS)

I, YAFFA KAPLAN, a Notary Public within and for the State of New York, do hereby certify that the foregoing record of proceedings is a full and correct transcript of the stenographic notes taken by me therein.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of ____________, 2012.

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YAFFA KAPLAN