NEW YORK CITY TEACHERS' RETIREMENT SYSTEM
INVESTMENT MEETING
held on Thursday, April 5, 2012
at
55 Water Street
New York, New York

ATTENDEES:

MELVYN AARONSON, Chairperson, Trustee
SANDRA MARCH, Trustee
MONA ROMAIN, Trustee
LARRY SCHLOSS, Trustee, Comptroller's Office
JAMIE SMARR, Trustee
JANICE EMERY, Mayor's Office
MARTIN GANTZ, Comptroller's Office
SEEMA HINGORANI, Comptroller's Office
BARRY MILLER, Comptroller's Office
YVONNE NELSON, Comptroller's Office
THAD McTIGUE, Comptroller's Office
JOEL GILLER, Comptroller's Office
MARC KATZ, TRS
SUSAN STANG, TRS
ROBERT RAUCCI, TRS
ROBERTA UFFORD, Counsel
ROBERT C. NORTH, JR., Actuary
ROBIN PELLISH, Rocaton
CHRIS LYON, Rocaton

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P R O C E E D I N G S

(Time noted: 9:50 a.m.)

CHAIRPERSON AARONSON: Good morning.

MR. KATZ: Good morning, folks. We're going to begin the investment meeting of the Teachers Retirement Board for April 5.

We'll start with the calling of the roll.

Melvyn Aaronson?

CHAIRPERSON AARONSON: Here.

MR. KATZ: Kathleen Grimm?

(No response.)

MR. KATZ: Jamie Smarr?

MR. SMARR: Present.

MR. KATZ: Sandra March?

MS. MARCH: Here.

MR. KATZ: Janice Emery?

MS. EMERY: Here.

MR. KATZ: Freida Foster?

(No response.)

MR. KATZ: Mona Romain?

MS. ROMAIN: Present.

MR. KATZ: Larry Schloss?

MR. SCHLOSS: Here.

MR. KATZ: We do have a quorum, so I

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will turn it over to the chair.

CHAIRPERSON AARONSON: Thank you very much. Welcome everybody to the meeting.

And the first order of the meeting today will be the pension portion by the Comptroller's Office in the public session.

MR. SCHLOSS: Thank you, Mel.

Does everybody have their monthly report?

Perfect.

I'll quickly go through it.

Let's start on page 3 just for a quick second. We're the blue line. The blue line is picking up, and that's sort of the conclusion of all the economic slides. Things are picking up a little bit. 2.5 to 3 percent GDP.

That gets you to page 6. Which is unemployment claims which we talked about previously. Jobs are -- unemployment is still unacceptably high, but slowly coming back down. You can see the unemployment rate on page 7. What you can see on page 8 is a very, very muted response relative to other expansions out of the recession. The problem is highlighted on page 11, which, again, we're the blue line, which is housing prices continue to go

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down. Until that stabilizes completely, we won't get construction jobs back again.

You can see, however, on page 13 that there is a little bit in recovery in new home starts. So again it's got to start somewhere, so it's starting there ever so slowly.

If you look through here, you can get quickly to page what's called -- 22. 22 is a VIX. It's volatility in the U.S. equity markets. You can see the problems of last fall are behind us, behind the U.S. stock market in general. Again, it relates back to the ECB giving out three-year very, very inexpensive loans, which averted the collapse of the European banking system and we're back to risk on versus risk off.

You can see on page 23 the white line is the current treasury curve, and you can see rates have sort of inched up afterwards because flight to quality is over so people sold government bonds.

Risk on and off also shows on page 25, which is the high yield spreads over investment grade. And again, the spreads are coming down in particular bonds, things like high yield bonds and equities.

The best thing to see on equities is on

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page 30, and again, pretty much since the middle of December all those markers have gone up, U.S. stock market, EAFE and emerging markets, excluding, of course, the last three days.

If you go to page 32 you can see the latest 12 months. At the end of February, Teachers is about $43.9 billion. I think that's the highest ever. We're probably up from there in March and down a little, so we're probably around where we are now. Perhaps up a "scoshe." And, again, if you look at it on a ten-year history, it's almost something of a straight line here. Forget about '09. So we're working our way back on long-term trends I guess.

If you jump now to page 38, you can see that in the far left-hand column, the U.S. stock market in February was up about 4 percent. International markets were up 5 to 6 percent, and the high yield market was up about 2 percent.

That got us to the next page, 39. We made about 3 percent in February. And that gets our fiscal year to date to about 2.5 percent. So, you know, we have to get to 8. We have four months, three months left. We'll see. It's a horse race. It ain't over till it's over.

If you go back then to page 36, you can

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see how the assets are allocated. This is using our adjusted policy weights. As you know moving from the old allocation to the new allocation takes time. What you see it probably doing in the futurel is taking it to EAFE, which is over-allocated down and once the market is under-allocated up, so it takes time to actually get that done.

Cash, which is on here at 2 percent, is now down less than 1 percent. We have bought 1 percent or so worth of emerging market equities. We've refunded some opportunistic fixed income mandates and a couple of other things along the way. So the cash is back. It's very, very small levels.

If you jump to page 37 to the very bottom, Total Equities and Total Fixed Income actual, you can see that we're about 69 percent equities, 31 percent fixed income, which is about where we're -- the extremes of the range, but we're kind of leaning into equities, which I'd say is the right thing to do after you take risk off and put it back into risk on.

The rest of the book is all the, as usual, the managers. The manager I think have found their footing again. Most of the monthly performance are in the green, meeting their benchmarks on average.

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I would ask Seema if you have anything to talk about anything specific in equities?

MS. HINGORANI: No.

MR. SCHLOSS: Martin, fixed income?

MR. GANTZ: No.

MR. SCHLOSS: Barry?

MR. MILLER: No.

MR. SCHLOSS: Yvonne?

MS. NELSON: No.

MR. SCHLOSS: Excellent. No news, good news. Market's going up, all good.

So if you have any questions -- I guess the bottom line is we're up. We're back in positive territory. We expect increased volatility. It's been pretty calm for January, February and March. April is a little choppy. My guess is there will be choppy points in the rest of the year, and we will see how it all sorts out on June 30th.

MS. EMERY: I don't have a question, but I have a request.

MR. SCHLOSS: Yes, ma'am.

MS. EMERY: May we perhaps see a footnote -- and maybe I missed it. Just to remind us, which of these returns are net of fees and which are gross of fees, because I think there's a

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combination in here. And I do forgot from time to time, so would it be possible to footnote?

MR. SCHLOSS: Yes, we will. And we have been working with our custodian to see if we get them off of net.

MS. EMERY: Do you have a time frame that you're giving them with regard to...

MR. SCHLOSS: They've been working on it for two years. They haven't got it done, so I've given up on date and time.

Martin, you want to comment on way they can't get this done?

MR. GANTZ: Yes. I can give a couple of items here. As far as the footnote goes, for the alternative asset classes, the private equity real estate and opportunistic fixed income are, I believe -- for the alternative assets classes, private equity and opportunistic fixed income with all but one exception, to my knowledge, are reported net of fees. So we report those net of fees.

For the publicly traded assets, the assets held at the Bank of New York, they're reported gross of fees.

One of several issues has to do with how to get that into the system. The system is built as

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most custodians' systems are for the securities held in their account that are publicly traded to report gross fees. And I can turn to Rocaton if they have clients or what the general rule is. Are they reported for -- typical stock and bond accounts, are they reported gross of fees or net of fees?

MS. PELLISH: Typically both.

MR. GANTZ: So the issue that we're facing with Bank of New York, one of issues, is that number 1 is timing. So the quarter just ended for March. If we were to report the March numbers, the fees that we pay, this bill wouldn't be submitted until after they get their statement, which will be sometime later this month, the bill would be paid later, assuming everything is okay and there are no issues or discrepancies, and that is done correctly and reflected correctly in the performance by Bank of New York, and we can tell them to include that and create a net of fee version of that. But because of the time and differences and because of the hundreds of accounts that the city has, it becomes a very complex issue, especially when you add in performance fees that are paid yearly, not monthly or quarterly, as well as issues that arise because of discrepancies in the fee calculation. Our fees are negotiated for

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you with the idea to make them as low as possible, and sometimes they can be complex because of that, but they do benefit the board because of our attempts to get the fees lower.

MR. SCHLOSS: We are switching just to let you understand some of the background.

CHAIRPERSON AARONSON: I appreciate the explanation, and will the Comptroller's Office please work on doing that.

MS. MARCH: Could I ask a question?

Could somebody tell me, we're requesting something and what we're requesting may make sense. But how does the industry do it, is my question, because we're up against the industry.

MR. GANTZ: So Robin mentioned that it's done both ways. The reason I ask her is just to hear from her point of view. We polled the other consultants, and the answer that we've gotten is for the most part, which is -- well, perhaps we should have an offline conversation -- for the traditional stock and bond portfolio is done gross, gross of fees. And what we do in the quarterly report is we have a separate page that shows by assets class, in other words, U.S. Government sector, high yield. We do have an average fee that's much easier to deal

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with. The problem is the specific manager -- no specific manager is that -- but the overall fee -- the overall return for that particular asset class you can take that and subtract that.

MS. EMERY: But that's actually not what I heard our other consultants say. When we look at the peer comparisons, that's correct. It's usually gross to gross when we do peer comparisons. When you do look at, for our internal purpose versus our benchmark, how a manager is doing or how particular asset class is doing against our own benchmark, I heard that it was typically net of fees. It depends on what you're looking at. Peer universes is gross, but then manager is benchmark.

MR. GANTZ: So in short, it does take work because of the complexity and the sheer number and volume of accounts, the timing issues, the performance fees, and the fact that there are changes. So we will have years where a manager has four quarters, but they only got paid for two because of the complexities or issues doing that, and so the next year they get paid for six quarters worth of fees. So we have to figure out a mechanism to deal with that over hundreds of accounts.

MS. PELLISH: If I could just say

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something, when you get net of fee performance typically from a custodian, everyone's dealing with those problems, and so you just understand that for a given quarter the net of fee may be distorted because fees came in late or fees were combined for two periods. But over an annualized period, it tends to even out.

MR. GANTZ: Over the long period I agree, but over the short period of time --

MS. EMERY: We care about long-term performance. We don't care about monthly performance or quarterly because a lot of the deviations --

MR. GANTZ: And we are working on it.

MS. ROMAIN: So what you're asking for is a footnote.

MS. EMERY: For now.

MS. ROMAIN: We move on.

MR. KATZ: Thank you.

MS. EMERY: Can we get an update periodically because I really do think we really need to start getting net of fees?

MR. SCHLOSS: It's in process.

Any other questions on performance?

CHAIRPERSON AARONSON: Move over to Passport Funds public report.

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MR. LYON: Good morning.

I'm going to start by presenting information through the end of February, and I'm going to start with the diversified and equity funds.

This was sent out in advance and handed out this morning as well. You can see that at the end of February the total market value of the assets was 9.878 billion.

And if you look at the first page you can see how the assets were allocated across all the different underlying managers and composites. At the composite level, we were inside of all the rebalancing ranges due to the ongoing monthly rebalancing program. And the largest deviations from the target were just 1.2 percent, so no particular concerns from an asset allocation perspective. The rebalancing program functions and has been as expected.

If you flip ahead two pages to page 3 you can see the performance consistent with the prior presentation. Everyone knows we've been off to a strong start in January and for the month of February as shown here and even through March, as we'll preview in just a moment.

If you look at page 3 in the middle of

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the page, you can see for the month of February the Teachers Total is -- the Diversified Equity Fund performance and that return net of fees was positive 4.38 percent, which was a little bit better than the broad Russell 3000 and also the Hybrid Benchmark.

And when you look over the -- you don't have to look very far, actually, when look up one row and you see an almost 6 percent return for the International Composite which made that the strongest performing composite for the month. The lowest returning composite was still up almost 3 percent, which was the Defensive Composite. And in most months where the equity markets are up fairly strongly, we would expect that the Defensive Composite to trail by its design. But we hope when the optimism cures the market, that the Defensive Composite provides some downside protection.

So if you look over to the 1 Year column, for instance, where we know that for a one-year period was highly volatile, we got a positive 3 percent for Variable A for the one-year period. But during that period, because things were so volatile, we actually benefitted from a lot of downside protection in the Defensive Composite which was the strongest performing composite for the year

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ended February 29th with a 7 percent return, while we had a negative 7 percent return from International Equity, for example.

If you also just, for your own reference -- and we can talk more about it later, but over the course of the past year or so a number of new managers have been added, and all the managers since inception performance is shown on page 5, and what you can generally see is if you picked out all the managers to kind of highlight by example, it's fair to say as we go through these different monthly reviews, all the managers who are added within the past year are off to strong starts in terms of absolute performance and that's partially due to their market exposures, but also in terms of relative performance with the worst relative performance being the index fund which tracked on a net of fee basis fairly close the index, and everyone else being flat or immediately ahead of the benchmark among all these different management strategies in the past year. So we're off to a good start with all the managers who have been added.

So I'll just pause and see if there are any questions on the Diversified Equity Funds before I turn to the other variable funds.

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Hearing none, I'm going to go on to the Variable B, the Bond Fund. And the Bond Fund had, as of February 29th, a market value of approximately $383 million. You can see the decomposition of that split between several different underlying portfolios. We previously discussed the transition that the Bond Fund emerged from previously being the stable valued fund and that transition, in large part, was completed approximately at year end, started this year and continues.

The bulk of the funds is no longer invested in stable valued type instruments, as you can see from the NISA portfolio, as well as the Short Term Portfolio allocation. And at this point in time the only remaining stable value portion of the fund is the 16.4 percent notated in the top right chart split between two different components with the BNY Mellon managed portfolio. You can also see the returns. These are net of fees. And so for the total Bond Fund, the return was negative 2 basis points or two one-hundredth's of a percent for the month of February bringing us year-to-date returns at positive 0.76 percent over that two-month period. And that compares favorably to the benchmark shown below.

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And then if there aren't any questions on that, we'll go on to the other three Passport Funds in International Equities, Inflation Protection, Socially Responsive Equity Fund. These are shown on page 2 and 3. And what you can see at the top left of page 2 are the market values in the same order I mentioned their names, 76 million, roughly, 28 million and 37 million are the approximate values of these options.

The performance is shown as well. The International Equity Fund performance, because it's unified largely with the International Composite of the Diversified Equity Fund, is similar, 5.9 positive return for the month, down almost 7 percent for the trailing year. Both numbers comparing favorably to the EAFE benchmark.

The Inflation Protection Fund was up in the 2 percent range, and that also compared favorably to its benchmark, so I mentioned regularly that that's not a benchmark we expect to track that closely over short and intermediate time periods, but a goal is to outperform it over longer time periods. But nonetheless, we were glad to note that we outperformed it. But their fund did trail that benchmark over their one-year period.

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And the Socially Responsive Equity Fund was up 4.6 percent, a little bit better, net of fees all these are, than the S&P 500. For the trailing year, though, it did lag due to the performance of the underlying funds. So it was modestly negative at negative 0.4 percent for the one-year period.

Since inception, on page 3 of each these funds, the Bond Fund I already mentioned. It's just at two month's inception in it's current form. But the International Inflation Protection and Socially Responsive strategies are up about 4 percent, about 2 percent and about 2 percent respectively versus their relevant benchmarks on an annualized net of fee basis since their start-up in mid 2008. Very strong relative results have continued.

That's everything we have through February 29th. I'll pause again to see if there are any questions.

MS. EMERY: Just a quick question along the same lines with regard to the fees. So I notice that these are net of fees.

MR. LYON: Yes.

MS. EMERY: Is this a calculation that's being done by the BNY Mellon, the custodian, or is this Rocaton doing adjustments for the fees?

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MR. LYON: No. This is done by the custodian, but the custodial relationship is separate than the pension relationship and was the Legacy Mellon relationship so that the performance calculation, I believe, at least historically has been done by different teams, perhaps even using systems.

MS. EMERY: Oh, is that right? So you think the issue with the pension funds could be the use of different systems of the custodians?

MR. LYON: I think the issues are everything Martin mentioned, plus they may have the added issue of potentially different systems or at least different teams.

MS. EMERY: Okay, interesting. Thank you.

MR. LYON: And then the March 31st benchmark info, just to review, I had mentioned that for equities that March was another strong month. And you can see domestic equities returns for those benchmarks opened at 3 percent range. International equities were modestly negative, and fixed income was negative in the longer duration, but if you're showing one-year numbers on long bonds versus long treasuries are 24 percent, then I guess you don't

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mind a minus 4 percent month.

You can also see how other options performed through March 31st, the underlying funds. The Inflation Protection and Socially Responsive Equity are shown.

Any questions?

Okay. That's everything that we had for the public session of the Passport Funds.

CHAIRPERSON AARONSON: Thank you very much, Chris.

MS. MARCH: I make a motion that we go into executive session for purposes of discussing sales of securities under Public Officer Law 105.

MS. EMERY: Second.

CHAIRPERSON AARONSON: We are now on the executive agenda of the Passport Funds.

(At this time, the meeting went into executive session.)

CHAIRPERSON AARONSON: Do I need a motion to end the executive session?

MS. MARCH: I make a motion that we go back into session, public session.

CHAIRPERSON AARONSON: Do I hear a

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second.

MS. ROMAIN: Second.

CHAIRPERSON AARONSON: Any discussion?

All those in favor.

(Chorus of ayes.)

CHAIRPERSON AARONSON: We are now back in public session and we are going to get a report on what we did during our executive session.

Ms. Stang?

MS. STANG: In the executive session of the variable funds, there was a discussion about the structure and the investment manager in the Bond Fund. Consensus was developed, which will be announced at the appropriate time.

There was also an update on several managers in the variable programs, as well as an update on our consulting firm.

In the executive session of the pension fund, there was a brief discussion of the structure of the private equity portfolio. We received a presentation on a private equity investment. Consensus was developed which will be announced at the appropriate time.

A manager update in the real estate portfolio was presented. There was a discussion of

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the RFP for high yield managers. Consensus was developed which will be announced at the appropriate time.

A presentation for an opportunistic fixed income manager was received. Consensus was developed which will be announced at the appropriate time.

CHAIRPERSON AARONSON: Is there a motion to adjourn?

MS. MARCH: So moved.

CHAIRPERSON AARONSON: Is there a second?

MS. MARCH: Second.

CHAIRPERSON AARONSON: Any discussion?

Hearing none, all those in favor of adjourning.

(Time noted: 12:57 p.m.)

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C E R T I F I C A T I O N

I, PATRICIA GUARINO, a Shorthand Reporter and Notary Public, within and for the State of New York, do hereby certify that I reported the proceedings in the within-entitled matter, on April 5, 2012, at NYC Teachers Retirement System, 55 Water Street, New York, New York, and that this is an accurate transcription of these proceedings.

IN WITNESS WHEREOF, I have hereunto set my hand this ______ day of ______________, 2012.

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PATRICIA GUARINO