

0001

1

2

3

4

5

6

NEW YORK CITY TEACHERS RETIREMENT SYSTEM

7

INVESTMENT MEETING

8

Held on Thursday, January 7, 2010

9

at

10

55 Water Street,

11

New York, New York

12

13

14

15

16

17

18

19

20

21

22

23

24

25

0002

1 ATTENDEES:
2
3 MELVYN AARONSON, Chairperson, Trustee
4 JOHN LIU, Comptroller, Trustee
5 SANDRA MARCH, Trustee
6 MONA ROMAIN, Trustee
7 BUD LARSON, Office of Management and Budget
8 NELSON SERRANO, TRS Executive Director
9 JOEL GILLER, TRS Counsel
10 RENEE PARIS, TRS Counsel
11 RICARDO MORALES, Comptroller's Counsel
12 VALERIE BUDZIK, Comptroller's Office
13 JOHN DAWSON, Comptroller's Office
14 MARTIN GANTZ, Comptroller's Office
15 THAD McTEIGUE, Comptroller's Office
16 MARC KATZ, Teachers Retirement System
17 PAUL ROSS, TRS Chief Accountant
18 SUSAN STANG, Teachers Retirement System
19 ROBERT C. NORTH, JR., Actuary
20 ROBIN PELISH, Rocaton
21 CHRIS LYON, Rocaton
22 ROBERTA UFFORD, Groom Law Group
23 CAROLINE WOLPERT, Pension Division, City Law
24 Department
25

0003

1 ATTENDEES: (Continued)
2
3 DAVID JETER, Comptroller's Office
4 LIZ CALDES, Comptroller's Office
5 BONNIE DIMS, Special Assistant to the
6 Comptroller
7 SUSAN GAYLE, Controller's Office
8 DIANE BRATCHER, Alternate Manage Rep
9 JOHN MERCEBURG, Comptroller's Office
10 LEON DUNKLIN, Comptroller's Office
11 KAREN BARCLAY, Comptroller's Office
12
13
14
15
16
17
18
19
20
21
22
23
24
25

0004

1

P R O C E E D I N G S

2

(9:49 a.m.)

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

0005

1

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

MR. SERRANO: We will again begin the
January 7, 2010 investment meeting of the
teachers retirement board by calling the roll.

Melvyn Aaronson?

MR. AARONSON: Here.

MR. SERRANO: Kathleen Grimm?

Note that she is not present.

John Liu.

MR. LIU: Here.

MR. SERRANO: Tino Hernandez also not
present.

Bud Larson?

MR. LARSON: Here.

MR. SERRANO: Sandra March.

MS. MARCH: Present.

MR. SERRANO: Mona Romain.

MS. ROMAIN: Here.

MR. SERRANO: Okay. We do have a
quorum, and you need to elect an acting
chairperson.

Any nominations?

MR. LARSON: I nominate Mel.

MR. SERRANO: Any second?

MS. MARCH: I second.

MR. SERRANO: All in favor, say aye.

MR. LARSON: Aye.

MR. LIU: Aye.

MS. ROMAIN: Aye.

MS. MARCH: Aye.

MR. SERRANO: All those not in favor?

Okay, Mel.

MR. AARONSON: Thank you very much.

This is a historic day. We welcome a
new comptroller as a member of our board, and
I want to welcome you and let you know that
this board is a very unified board. Everybody
works well together, and you will find that
among all the boards you are going to serve
on, there is not going to be any board as
uniform and as easy to work with as we are at
this board, and we look forward to working
with you.

MR. LIU: Thank you.

MR. AARONSON: You are very welcome.

Do you want to say anything?

MR. LIU: Sure. I appreciate those
comments, Mel, and I understand this is a very
unified board. I think this is also the only

0006

1 board during which whose meetings such a large
2 gavel is used. I am sure that is just purely
3 coincidental, but..

4 MS. ROMAIN: We cooperate.

5 MR. LIU: Congratulations to you on
6 being elected chair of this meeting, and I am
7 really happy to see everybody this morning. I
8 am -- this is a, I guess my seventh day on the
9 job, and I am really looking forward to a very
10 productive time in the weeks, months and years
11 ahead.

12 I want to work very closely with all of
13 you. I don't know if we have had a chance to
14 go around the room to introduce everybody yet,
15 Mr. Chairman.

16 MR. AARONSON: We have not, but it will
17 be a very good idea that we do that to get to
18 know us, and we get to know anybody that you
19 brought that is new to us.

20 So as I said, I am Mel Aaronson, teacher
21 trustee and retirement board.

22 MS. MARCH: Sandra March, teacher
23 trustee.

24 MS. ROMAIN: Mona Romain, teacher
25 trustee.

0007

1 MS. STANG: Susan Stang, as investment
2 administration division deputy director.

3 MS. UFFORD: Roberta Ufford, and I am
4 counsel to the variable funds.

5 MS. WOLPERT: I am Caroline Wolpert from
6 the pension division of the city law
7 department.

8 MR. GILLER: Joel Giller, TRS counsel.

9 MS. PARIS: Renee Paris, TRS counsel.

10 MR. MORALES: Ricardo Morales,
11 comptroller's counsel.

12 MS. BUDZIK: Valerie Budzik,
13 comptroller's office.

14 MR. DAWSON: John Dawson, comptroller's
15 office.

16 MR. GANTZ: Martin Gantz, comptroller's
17 office.

18 MR. LYON: Chris Lyon, one of the
19 partners and investment consultants at Rocaton
20 Investment Advisors.

21 MS. PELLISH: Robin Pellish, from
22 Rocaton.

23 MR. KATZ: Marc Katz, TRS, director of
24 investments.

25 MR. ROSS: Paul Ross, TRS chief

0008

1 accountant.
2 MR. NORTH: Bob North, actuary from the
3 retirement system.
4 MR. LARSON: Bud Larson, trustee,
5 mayor's representative.
6 MR. McTEIGUE: Thad McTeigue,
7 comptroller's office.
8 MR. LIU: John Liu. Good to see
9 everybody.
10 MR. SERRANO: Nelson Serrano, TRS
11 executive director.
12 MR. LIU: So Mr. Chairman, thank you
13 very much for..
14 MR. AARONSON: Do you want to introduce
15 your staff and TRS staff that's here?
16 Can we start down at this end?
17 MR. JETER: David Jeter, comptroller's
18 office.
19 MS. CALDES: Liz Caldes, comptroller's
20 office.
21
22 MS. DIMS: Bonnie Dims, special
23 assistant to the comptroller.
24 MS. GAYLE: Susan Gayle, comptroller's
25 office

0009

1 MS. BRATCHER: Diane Bratcher, alternate
2 manage rep.
3 MR. MERCEBURG: John Merceburg,
4 comptroller's office.
5 MR. DUNKLIN: Leon Dunklin,
6 comptroller's office.
7 MS. BARCLAY: Karen Barclay,
8 comptroller's office.
9 MR. LIU: Looks like we are well covered
10 here.
11 MR. LARSON: Your back is covered.
12 MR. LIU: Well, yes, I am glad to see
13 all these people sitting between me and the
14 window.
15 MR. AARONSON: Let's go to the public
16 part of the agenda and the comptroller's
17 office.
18 Are they ready for their public
19 presentation?
20 MR. McTEIGUE: We are Mr. Chair. And
21 the first and only item in the public agenda
22 will be the flash report, and I turn it over
23 to Martin.
24 MR. GANTZ: I will stand over here so
25 you can hear me. Everybody should have a copy

0010

1 of the flash report in front of you.

2 The flash report is through January 5,
3 2010, and if you scan the column of numbers on
4 the left, you will see that the strong
5 absolute number of returns are shown for most
6 of the public market sectors. Starting with
7 the US equity sector, the returns we estimate
8 through January 5, 2010 whereas 25.53, seven
9 basis points behind the benchmark. The non-US
10 equity developed market returns were 24
11 percent even, 80 basis points behind the
12 index. REITS returned 44.05 percent, 351
13 basis points behind the benchmark.

14 Opportunistic equity investments returned
15 18.87 percent, which were 659 basis points
16 behind the benchmark. And that brings a total
17 equity estimated return to 24.01 percent.

18 The core plus five fixed income program
19 returned 5.88 percent, which was 88 basis
20 points ahead of the custom core plus five
21 benchmark.

22 The TIPS markets investments returned
23 5.54 percent, nine basis points behind the
24 benchmark.

25 High yield or enhanced yield returned

0011

1 16.31 percent. That continues a very strong
2 run for high yield, and that is 52 basis
3 points ahead of the Citigroup double B single
4 B index.

5 Convertible bonds returned 21.70
6 percent, 253 basis points behind the
7 benchmark. And that brings the total fixed
8 income return to an estimated 8.04 percent or
9 26 basis points behind the benchmark.

10 The total teacher's estimated return for
11 the period of the fiscal year through the 5th
12 is 18.43 percent. Backing out ten basis
13 points of public market fees comes to 18.33
14 return behind the policy benchmark, the
15 adjusted policy benchmark at 25.56 percent.

16 Are there any questions?

17 MS. MARCH: Just let's keep it up.

18 MR. AARONSON: Thank you very much.

19 Marty. Okay, we move from there to -- you are
20 finished with the public presentation?

21 MR. McTEIGUE: Correct, Mr. Chairman.

22 MR. AARONSON: Move to the public
23 presentation on the variable program.

24 MR. LYON: Good morning. I am going to
25 provide you an update through November 30,

0012

1 first regarding the performance of four of the
2 variable fund options. The first handout that
3 was also distributed in advance is regarding
4 the variable A or diversified equity
5 investment option that's available to the
6 participants, and on the first page you can
7 see that as of November 30 the total assets in
8 the bottom of the page across the four
9 different plans covered were \$9.1 billion.

10 You can see how those assets were
11 allocated on that first page. All of the
12 major composites were within approximately 1
13 percent of their targets, so the ongoing
14 monthly rebalancing program has continued to
15 keep these composites relatively in line with
16 their targets. For example, the 50 percent or
17 so that's indexed, the actual allocation at
18 November 30 was 50.6 percent.

19 If you turn ahead to Page 3, on Page 3
20 in the middle of the page where it says
21 "Teacher's Total," we have the total
22 performance for the variable A investment
23 option for various time periods through
24 November 30. And you can see for the month of
25 November that the option returned almost 5

0013

1 percent, 4.87 percent; and compared to the
2 hybrid benchmark at 4.93 percent, it was
3 within six basis points. And of course these
4 results are shown net of fees.

5 Their broad US equity market, the
6 Russell 3000 which we also look at as a guide
7 toward evaluating performance did do slightly
8 better during the month, posted a return of
9 about 5.7 percent. For the 11-month period,
10 the calendar year to date, we can see that
11 this investment option, despite obviously a
12 negative start to 2009 and following on a
13 tough 2008, the year-to-date performance of
14 this option is almost 26 percent and is a
15 little more than a percent above the Russell
16 3000 and several percent above the hybrid
17 benchmark, so relative to benchmarks for
18 calendar year to date, the performance had
19 been strong.

20 For the most recent periods the US
21 equity exposures, which is the majority of the
22 fund, have been the larger contributor to the
23 performance, for example, in the most recent
24 month. However, over the course of the full
25 year-to-date period, the international

0014

1 exposure that's in there to provide
2 diversification, broaden the opportunity set
3 has been a big contributor to the results as
4 well.

5 Unless there are questions, I am going
6 to provide you an update now on three of the
7 other variable funds options, which is the
8 next handout in your pile. That was also
9 distributed ahead. These are in shorthand
10 referred to as variable C, D and E on the top
11 left. Those are defined better the
12 international fund, the inflation protection
13 fund and the socially responsive equity fund.

14 And you can see the asset levels in
15 these options which were launched mid-year
16 2008, and these investment options have
17 approximately 60 million, 10 and a half
18 million and 10 million, respectively.

19 The international fund, reviewing its
20 performance, if you look at the month, I
21 mentioned that US equity in November did much
22 better for US-based investors than
23 international equities; and you can see that
24 this option did have a positive November but
25 not quite as strong as the US market, up just

0015

1 a little over 2 percent and marginally ahead
2 of its benchmark. For the year-to-date
3 period, however, this option has returned to
4 participants 37 percent for the calendar year
5 to date, and that's about six and a half
6 percent ahead of EAFE, and that's also net of
7 fees.

8 And the next variable option, the next
9 boxed set on the page is the inflation
10 protection fund, which was up about two and a
11 half percent for the month of November; and
12 that was about 30 basis points or so ahead of
13 its benchmark. And for the year-to-date
14 period that investment option has returned 22
15 and a half percent for participants and is
16 roughly 9 percent ahead of its benchmark.

17 Finally, the socially responsive equity
18 option returned 3.4 percent for the month. It
19 did trail the S & P 500 index; however, it was
20 still a reasonable absolute return. And for
21 the year-to-date period that option has
22 returned approximately 21 percent, 20.76,
23 which is several percent behind the S & P 500;
24 however, these options primarily invest, as
25 you know, in underlying funds. And the

0016

1 underlying fund in which it invests for the
2 year to date did keep pace with and slightly
3 outperform the benchmark. But because these
4 options are small and relatively new, the
5 impact and timing of cash flows has the
6 potential to distort the fund's specific
7 return in terms of the performance for the
8 variable option as a whole, and so most of the
9 difference between the underlying mutual fund
10 in which this invests and the return for the
11 variable option as a whole is due to the
12 impact of cash flows.

13 MR. AARONSON: Anybody have any
14 questions for Chris?

15 MR. LYON: Okay, then I am going to move
16 on to the final page in the pile, which was
17 just distributed today. And this provides you
18 with performance information through
19 December 31.

20 And just to give you a sense that
21 December was also a reasonably strong month
22 for equities with the Russell 3000 broad US
23 equity index up almost 3 percent for the
24 month, bringing its calendar year result for
25 2008 to 28.3 percent. And you can see that,

0017

1 you know, that is certainly a strong result,
2 but if you keep in mind where we have been
3 since the lows of March 9, it actually is an
4 interesting statistic.

5 Since March 9, the Russell 3000 is up
6 70.9 percent, 70.9 percent since March 9. And
7 the -- however, if you go back to the previous
8 high, October 2007 on a cumulative, not
9 annualized but cumulative basis, we are about
10 24 percent off of that high still. So just
11 for some context, we have got -- come a long
12 way since the tumultuous times of not long
13 ago. And the volatility could, of course,
14 creep up again, but we have come a long way;
15 but we are not back at those October 2007
16 levels.

17 There are similar statistics for EAFE,
18 up 79 percent since March 9 and still almost
19 29 percent off of its October 2007 highs on a
20 cumulative basis. So just a little
21 interesting statistic, since we have just
22 closed out the year.

23 Any questions?

24 MR. AARONSON: Thank you very much.

25 MR. LYON: Thank you.

0018

1 MR. AARONSON: Now I notice that your
2 executive agenda is very short. We would like
3 to go through that.
4 Do I hear a motion.
5 MS. MARCH: May I propose a motion that
6 we go into executive session, for purposes of
7 discussing managers and securities?
8 MR. LARSON: Second.
9 MR. AARONSON: Any nays?

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

21 MR. AARONSON: Hearing no objection, we
22 are now in public session.
23 Marc, will you report, please, what we
24 did in executive session.
25 MR. KATZ: Certainly.

0077

1 During executive session for the pension
2 fund, the board heard a presentation from a
3 recently appointed fixed income manager. The
4 board also provided consensus with respect to
5 the adoption of the public equity and fixed
6 income opportunistic investment policy
7 statements, pending slight modifications to
8 the documents.

9 The board received an update on an
10 existing private equity investment from its
11 consultant, PCG. As part of the executive
12 session for the variable funds, TRS staff
13 provided the board with an update on the
14 search for general investment consulting,
15 noting the names of the semifinalists.

16 Finally, the board held an
17 attorney-client privileged session where the
18 board discussed a current litigation matter as
19 well the possible/pending litigation matters
20 but took no action.

21 MS. STANG: I approve.

22 MR. AARONSON: Did he miss anything?

23 Okay, so we have that?

24 Now, the next..

25 MR. SERRANO: Motion to adjourn.

0078

1 MR. McTEIGUE: Motion to adjourn, Mr.
2 Chair.

3 MS. MARCH: So moved.

4 MR. AARONSON: Seeing no opposition, we
5 are adjourned.

6 (Time noted: 11:38 a.m.)

7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

0079

1 C E R T I F I C A T E

2

3 STATE OF NEW YORK)

4) ss.

5 COUNTY OF QUEENS)

6

7 I, YAFFA KAPLAN, a Notary Public within
8 and for the State of New York, do hereby
9 certify that the within is a true and accurate
10 transcript of the proceedings taken on January
11 7, 2010.

12 I further certify that I am not related
13 to any of the parties to this action by blood
14 or marriage and that I am in no way interested
15 in the outcome of this matter.

16 IN WITNESS WHEREOF, I have hereunto set
17 my hand this _____day of January, 2010.

18

19

20

YAFFA KAPLAN

21

22

23

24

25