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NEW YORK CITY TEACHERS' RETIREMENT SYSTEM
INVESTMENT MEETING
Held on Thursday, January 8, 2015, at
55 Water Street, New York, New York
9:48 a.m.

ATTENDEES:
MELVYN AARONSON, Chairman, Trustee
SANDRA MARCH, Trustee
THOMAS BROWN, Trustee
SCOTT EVANS, Trustee
CAROLYN WOLPERT, Trustee
SUSANNAH VICKERS, Trustee
CHARLOTTE BEYER, Trustee
PATRICIA REILLY, Teachers' Retirement System
THAD McTIGUE, Comptroller's Office
MARTIN GANTZ, Comptroller's Office

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ATTENDEES (Continued):

SUSAN STANG, Teachers' Retirement System
MICHAEL DORSA, Rocaton
ROBIN PELLISH, Rocaton
CHRIS LYON, Rocaton
DAVID LEVINE
VALERIE BUDZIK, Teachers' Retirement System
PAUL RAUCCI
RENEE PEARCE
JOHN MERSEBURG, Comptroller's Office
LIZ SANCHEZ, Teachers' Retirement System

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MS. REILLY: All right. Good morning.

Welcome to the January 8, 2015 investment meeting of the Teachers' Retirement Board. I will start by calling the roll.

Melvyn Aaronson?

MR. AARONSON: Here.

MS. REILLY: Charlotte Beyer?

MS. BEYER: Here.

MS. REILLY: Thomas Brown?

MR. BROWN: Here.

MS. REILLY: Sandra March?

MS. MARCH: Present.

MS. REILLY: Susannah Vickers?

MS. VICKERS: Here.

MS. REILLY: Carolyn Wolpert?

MS. WOLPERT: Here.

MS. REILLY: We have a quorum and I will turn it over to the chair.

MR. AARONSON: Thank you very much. Before we do any business at all, I am very, very happy to announce that Susan Stang has been named the director of our investment administration department. I want to congratulate her. Susan worked hard.

And then the order of business today is

going to be that we are going to do the public Passport Funds first, then the public Pension, and then we will go into executive session with our Passport Funds first and then our Pension. We are now ready and we are going to start.

MR. LYON: Great. Good morning and happy New Year. I will start with the Passport Funds updates for you, and these were distributed in advance and handed out today so I will go rather quickly.

The information that I will go through first is through November 30th, and then I will update you a little bit for year end. Starting with the Diversified Equity Fund handout, you can see that at the end of November, this was an 11.6 billion dollar divestment option and the asset categories at that high composite level were reasonably close to target, though they were a little further off than in many recent months. We are in the process of implementing a new balancing program, and also there have been significant deviations in terms of relative performance between the markets. And you will

see in just a few pages that in particular, international equities had meaningfully trailed US and that in large part contributed to their underweight.

If you flip ahead two pages, please, you can see that this investment option for the month of November had a 2.2 percent of return, which is right in line with the Hybrid Benchmark, behind the U.S. equity benchmarks, in part because of the exposure to non-U.S. markets, but the story is much more pronounced if you look over two columns to the right. At the year-to-date column -- calendar year-to-date rather than fiscal year-to-date -- through November 30th, you can see that the entire investment option was up 9 and a half percent. Pretty strong absolute return, slightly trailing the Hybrid Benchmark, and was further behind the U.S. equity markets in large part driven by the international performance, which you can see that despite the whole fund's 9 and a half percent return net of fees, the international component was actually in modest negative territory particularly when you adjust back to U.S.

dollars. So the strength of some of the local markets has been there, but with the currency differences, that has been a contributor as well.

So that's the main story in this particular time period, but if you look back to page 2, you can see that over the year-to-date period, the Defensive Composite, which has generally been performing as intended, actually had a return that held in there with the return of the overall fund, so it's worth noting that we were up 9 and a half percent year to date, not only in the overall fund, but also in the Defensive Composite. So in a year where we have fairly strong absolute returns, the Defensive Composite did not provide a drag, which it sometimes does in significant up markets because it's designed to be more conservative.

So let's keep going and then open it up to questions. The next handout we start with the Bond Fund, and this option had about 343 million dollars at the end of November. You can see it's allocated primarily to the portfolio managed by NISA, and for the month

we were a basis point ahead of the benchmark for .31 return. Year-to-date return on the fund, a little behind the benchmark. Some of that is influenced by the impact of cash flows. You can see NISA's performance was actually ahead of the benchmark, but what you can see is that we are in that just before 1 and a half percent type of return. This was consistent with the low-yield, low-interest rate environment that we are in in the conservative nature of this portfolio.

If you flip ahead to the next page, you can see the other three Passport Fund options and the asset levels at the top left, the International Protection and Socially Responsive Funds. Around 100 million, 44 million, and 92 million. Very round numbers and you can see the performance. The International Fund is unitized with the composite of the international within the Diversified Equity Fund, so the returns are similar but moderate positive returns for the month. Year to date, modest negative territory. For the month the managers are right in line with the benchmark in the

aggregate. For year to date, they are half a percent behind on a net of fee basis, so basically they are roughly behind on their fees in very round numbers. So it's not been so much a story about active management, but more a story of the markets that led to that modest negative year-to-date return.

Then the Inflation Protection Fund, as you recall, we have changed the manager of that fund, and so I believe this will be the last time that you see PIMCO on this report, but what you can see here is that they were down about half a percent. They were transitioning, and of course, cash flows going on so the option actually had a modest positive return for year to date. Four and a half percent return for the option, well ahead of the benchmarks.

Socially Responsive at the bottom, a little bit ahead of the benchmark for the month. 2.85 percent return. A 10 percent return for the year-to-date period. However, that was behind the Large Cap Index.

And then lastly, if you look at the final handout, we have a bit of a preview of

how things look through year end. Relatively

flat although noisy. These are preliminary
but for the Russell 3000, it's also been an
interesting couple of days where until two
days ago we had a multiday losing streak going
on in the U.S. equity markets. There was some
bounce back yesterday. It looked like it
might be this morning.
      You can also see though that the EAFE
Index for international was down in the month
pretty meaningfully. The other benchmarks
were also in negative territory, and lastly,
toward the bottom of the page, you can see how
a couple of our options are likely to be doing
where these mutual funds from Fidelity and
Neuberger represents substantially all of the
assets, and what you can see is the Fidelity
Strategic Real Return Fund was in negative
territory right in line with its benchmark,
negative 2.3 percent. It so happens in a
shorter time period, somewhat different
strategies, so it's hard to compare, but just
for comparison anyway, the PIMCO fund was down
2.98 percent for the same time period. So
this was a little bit better, but again, that

doesn't mean one is doing better or worse than
the other. They are different strategies.
      And lastly, the Neuberger fund, a little
ahead of its benchmark and pretty much the
only thing on this page in positive territory
for the month of December.
      So that's where we are. It's been an
interesting time in the markets. I know the
Comptroller's office will talk more about the
markets and so -- but I am happy to take any
questions either now or after the
presentation. That's all we had in the public
session for the Passport Funds.
      MR. AARONSON: Any questions? Okay.
      Moving on to the Pension Fund.
      MR. EVANS: Thanks very much. We are
going to work out of the monthly book, the
color book chart. All results in the asset
allocation.
      Turn to page 37. At the bottom of the
page there, you can see the Teachers'
portfolio is at 1.2 percent during November
versus 1.32 for the benchmark. So it was an
up month in November. December we hit an air
pocket toward the end of the year. The first

couple of weeks have been down.

We continue in a chattering pattern that we have been in since mid-year of 2014. We no longer have the wind at our back from easing in the United States. Here was some deflation and trouble with monetary policy in Europe. The troubles with Greece, the oil price cut in half, the dollar is on a tear, which is a destabilizing movement for global economics.

The world is uncertain, and during this period of time, you know, when we don't have a strong feeling about the way things are going to break -- we certainly didn't predict the collapse of oil prices, nor did almost anyone except for potentially a few folks in Saudi Arabia. The best policy for U.S. is to stick close to home in terms of our long-term asset allocation. We are long-term investors. The asset allocation is designed to deliver acceptable levels of real return to the teachers who rely on this fund over long time periods. We hire good managers with assignments that have well balance of taking of risk.

So if you look at the snapshot of where

we stand --

MR. AARONSON: What page?

MR. EVANS: On page 30.

You can see what our allocation looks like relative to our long-term stable asset allocation. We said in the -- I am basically just repeating myself, but there was more forecast in my previous comments. The snapshot at the end of November shows essentially what we were working towards, which is to take the bets or overweight out of the U.S. equity market in green. We are down to only 1.1 percent overweight. Equalize the exposure relative to benchmark with the international exposure in yellow. So they are about the same.

Emerging markets is almost flat as is everything else in the equity side. On the fixed income side, the only tilt that we have in the portfolio is we have less long-term bonds than we would normally have. 2.9 percent less in terms of nominal bonds and 1.6 percent less in terms of inflation bonds in dark and light blue respectively, and we have more in short-term bonds. I know it says

"cash" on the list, but the way we break things up, everything less than five-year duration or five-year term is considered to be cash, and we are holding most of this at about the two-year level. So these are bonds but shorter term bonds.

And rather than having the sort of the permanent tilt that we have in our strategy towards long-term bonds, we have evened it out a little bit by having more short-term bonds than normal. So when interest rates finally rise, as they should in a strengthening economy where we are almost striking zero real rates for people to borrow money, as they rise, we will be somewhat protected. They will still go down. Both sets of bonds will still go down but will go down less than if we held all the exposure in the dark blue long-term bonds.

So we will keep that tilt on until interest rates resume at sort of the normal level of real returns, which may be a while. And we will have a pretty neutral asset allocation. It should look a lot like this until things change.

If there is no questions on that, I am going to turn it over to Martin to give you some of the details of the economic activity in November. He has got some interesting charts for you.

MR. GANTZ: Thank you.

Still looking at this book, if you can turn back to page 15. Scott mentioned it before about the price of oil. We don't have that chart in here. We can certainly add it or think about adding it going forward. It's a meaningful chart, but the effects of what's going on in developed markets certainly shows up on pages 15 and 16. So those are how the dollar is strengthening or weakening versus other large currencies. There is a dollar index that is an index of approximately a dozen large currencies such as the euro, yen, and some other currencies. There is now a five-year high at the level of the index level near 90. It's actually higher since this was printed a week ago and this chart shows five years, so you can see now it's at the high and it's partially driven by the chart below, which is U.S. dollar versus euro, and you see

on this chart the euro is at 121 since it

broke 120 and it's going below.
Just so you know, going down means a weakening of the euro, strengthening of the dollar. So perhaps look at it like this. The convention in currencies is odd. It's in terms of euro, not dollars. Just like in British pounds, it's in terms of pounds, but in other currencies, it's in terms of dollars so it's backwards.
So it's going towards parity meaning one to one, which is now, by the way, a nine-year low in euro versus the dollar, and that's because of the weakness that you have been reading about in Europe, the weakness you have been reading about in Europe where -- and the relative strength in the U.S.. After all, quantitative easing has ended.
The question now, of course, that you read about and hear about is when is the Federal Reserve going to raise short-term rates. No one knows the answer, but it will happen at some point and they will telegraph it as well at some point but that is the expectation. What happens with the four

trillion dollar balance sheet that the Federal Reserve bought, those bonds? We don't know, but the first step is to raise short-term rates, which is in contradiction what's going on in Europe because they are on the borderline of a recession, and in contrast to U.S., what they are doing is they are looking for quantitative easing models themselves. So because of that, assets are flocking to the U.S. in dollar terms, so the dollar is going up versus the euro as well as the yen and other large currencies. Hurts exporters, makes other things cheap. Makes inflation cheap for U.S., but if you have investments in let's say non-U.S. portfolio as Chris mentioned in his comments, what happens is if they are denominated in euros, you -- the company stock could go up, but once translated to euros, you could actually lose money because the euro is going down. Over the long term, it tends to even out, but in the short term you can see things like this.
Big question has been where was this before? Why didn't this happen a year ago or two years ago? And I don't have an answer to

that other than the markets are now paying attention and saying -- because for years the U.S. was ahead of Europe and Japan in economic growth and economic growth expectations, but it is happening now and this is what you will see, and you will see that also in a chart going forward about the market returns. European or non-U.S. market returns are driven by developed markets.

The VIX, page 18. So the VIX is -- that's this page over here. If you take a look really towards the very right, you will see a couple of blips up. It doesn't look like much but on the scale it really is. Volatility was almost nonexistent for most of last year as measured by the VIX, which is the volatility on the S & P 500. It was at very, very low levels, which in this index is about 10, and then in October -- you will remember early October there was a panic in the market. We had a high single-digit correction and that's the first blip up where the VIX actually tripled and then immediately came back down the second half of October, and remember last month we told you that the

markets were back up to record highs, and we will talk about November in just a moment.

The very end you will see another blip up. At the very end -- this was printed as you see at the end of December 29th. It does not include what happened in the last few days, so you would have seen another blip up, but right before the end of the year, the U.S. equity markets went down on light trading, and that caused the volatility to spike again so it would not surprise me to see more of these as we go into an environment where certain developed markets are taking one path of quantitative easing.

U.S. is worried about rising rates so there is a divergence and so volatility ensues, so it would not be surprising to see this going forward for a time until the market is comfortable with whatever the Fed does and whatever the Fed starts doing.

Ten-year treasuries on page 20. When we printed this chart, it was at 2.20 or so. That's where it ended the year. This morning I saw it was at 1.99. So I have said this too many times and it's no longer even funny, but

on the way up it keeps going down and at some point it goes up, but what happens is because of what's going on in Europe and other so-called safe haven sovereign bonds in developed markets, those rates are so low, near record levels in Germany and Japan that investors are looking at the U.S.'s stronger economy saying I would rather buy these bonds with the strengthening dollar, so on my terms I will actually do well and I feel more secure. So you have actually demand for this even though quantitative easing has ended so it's counterintuitive, but there is a great demand from central banks and other investors.

Next page, page 21 -- I usually don't go through this but it's interesting to note. This is a month behind. I can tell you what the numbers are. This is investment grade high-yield spreads. This tells you what the bond market thinks about risks in print so -- and I will have you look at the red line. This is actually the December 1st spread level, 449, which as you see is higher than the low or trough of the low 400s. At the end of December, it's in 480. In the last few

days, it actually went higher. That can often be a leading indicator to equity troubles.

I am not going to say that this led to what happened in the last week in the equity markets but it can, but in the specific case of high-yield markets, there was at a lot of new issuance in high yield. Because energy prices are twice what they are now, there is a lot of exploration in E&P companies, E&P companies issuing bonds because the market was open and liquidity was good and energy became a larger part of the high-yield market, and those bonds have really suffered as energy prices went down because it made those prices uneconomical, so that's a big driver what's happening in the high yield.

Page 25 just gives you a really dramatic view of the returns of the U.S. versus other indices. The orange is developed markets and yellow is emerging markets and you have just seen the picture. The divergence, U.S. is white is doing better.

So how did the returns go? Turn to the next page on page 27 where we show the returns on the two pages in columns. For the month of

November, it was actually a very good month and I will show you what it meant for Teachers in a moment. It was actually a very good month.

If you take a look at the numbers, Russell 300 is up near nearly 2 and a half percent. EAFE was up, emerging markets was down a bit. Core Plus 5 was up because interest rates went down. If you take a look at the next page, in this kind of the second section, the high yield -- even though equities were up, high yield was down as I mentioned because of the concern about energy. That's when energy prices started to go down. But TIPS were up, verticals were up, REITS were up. In fact, REITS fiscal year to date in just four months were up over 9 and a half percent.

Just as a hint for December, Chris already told you but most of the markets were either flat or down. There were very few positive numbers here other than some fixed income number, some core fixed income numbers.

So what was the return for November? The return for November on page 29 -- pardon

me, I can't read -- is shown on the left bar, set of bars which is 120, which brought fiscal year-to-date return to 170 for November. Scott already went through how we are positioned. I can also tell you that as of recently, those numbers are similar but the equity overweights are lower obviously because the equities markets have gone down a little bit. So they are still overweights but overweights by a smaller amount, less than 1 percent.

So how did the Teachers' market value look? So if you turn to page 35, we kind of hinted at the last meeting but we didn't know the exact number, but I can now tell you as of November, it's at a record high. So the market value was just shy of 60 billion. 59.45 billion as of the end of November. It, in fact, was a record.

If you take a look at the next page, that shows the calendar year returns, end of fiscal year returns. It's all rectified, of course, but the bottom line shows the 10-year return was over 7 percent for the period ending November. That's pretty much my

comments what happened in the market unless

you have any questions.
MR. AARONSON: Is that --
MR. EVANS: That does it for the monthly updates unless there are any questions, and if not, we have a trustee education piece that's moved to the public agenda. Sorry. We had a misprint in the book putting it in the private session, and it belongs in the public session. And John is handing out the slides that I am going to talk to.
So this is simply a report back from discussions that we have had with the boards. We spoke with you I think a couple of meetings ago about what types of educational sessions would the boards like to have in joint sessions. And you can see in the last page here what topics had interest from multiple boards.
And if you look at the top three, these are areas that we think it makes sense to focus our initial efforts towards putting together a trustee education session. Fiduciary duty, governance, and fees were broad interest. Asset allocation, you know,

is an issue we are going to address because of some changes to the basket law, and we might want to slip that one in, but fiduciary training is really the one that seemed to have the most enthusiasm.
MS. VICKERS: Sorry to interrupt, but everybody is looking around because Valerie has scheduled a fiduciary training for this board unlike the other boards.
MS. MARCH: But I think NYCERS also had -- not that I am on the NYCERS board.
MS. VICKERS: They have done it. They have had it.
MR. EVANS: Did they do it before some of the members joined?
MS. VICKERS: They did it in January, but they asked for additional training.
MR. EVANS: So there is general concern. I mean, it's a combination of fiduciary training of just sort of, you know, trustees' responsibilities one on one, and you have to realize that unlike this board, some of the other boards, particularly NYCERS, they have a lot of new trustees. You know, this is their first gig, and so there is a wide interest in

this. So we are pulling together a session.

Some of the other boards have expressed a strong preference to have the presenters be not from any of the one trustee groups, so we have people in the Comptroller's office and our office of General Counsel that could give this session, but the strong feeling from the Police who we talked to the other day and NYCERS is to have an independent person come in.
MS. BUDZIK: Cohen Milstein, which is a firm kind of independent of the board so to speak, and they are scheduled for the 26th.
MS. VICKERS: Val is scheduling them.
MR. EVANS: You are going to have a separate session?
MS. BUDZIK: It will be a training session. What I do is circulate the kind of agenda and topics that are going to be covered, so anyone can weigh in if there is something they are interested in that's not covered.
MR. EVANS: Do whatever you want but we are also trying to schedule a similar thing for all the boards.

MR. AARONSON: I know the next steps you talk about what you are going to do is complementary to the system, so we are going to have our system and then what you do on that.
MR. EVANS: There may be some overlap because some of the other systems won't have had what you guys had, but we will try to make sure there is additional stuff so it's interesting. So we are trying to be responsive here to -- we are the convenors but it's your show and we are happy to do this.
So this gives you a list of what's likely to roll out first, and there was a lot of consensus on the issues that people wanted more input on. So we will start with fiduciary training and primer for interest, governance, fees, et cetera. We will go down the list.
MS. MARCH: You know what would be very helpful? What would be very helpful because including the Comptroller's office, everybody is very busy and their calendars are very crowded, so what would be helpful is if we could get the dates projected well in advance.

So even if we had the fiduciary training here, if we chose to go to yours, we could do it, and then when you go to the other topics, I don't want to find that it's on a day that I have already scheduled a meeting or if not a meeting, a meeting where I am dealing with members of the system and I don't want to cancel that. So that would be very helpful.

MS. VICKERS: We will try to give you as much lead time as possible.

MS. WOLPERT: On the fiduciary training, we discussed that at Police. I know here Valerie handled setting up Cohen Milstein, but I do agree with what Scott said about the other boards. The Law Department is the board's counsel as everybody knows, and I think it's practically good to have sort of an outside expert to come in, as Valerie has set up to have Cohen Milstein to come in. So while we appreciate the Comptroller's office's offer of their counsel, I think the way we have done it here is good and the other boards can worry about what they are going to do.

MS. MARCH: We can get them to come here, so if they are my counsel, they are here

and they can hear what I am doing and they can guide me so I know I am doing the correct thing.

MR. EVANS: So we are happy to do whatever the consensus is. We offered the Comptroller's office just to be helpful, and it would be cheap to do whatever you want.

MS. BEYER: Is this in addition to the half hour at each monthly meeting what we are talking about?

MS. VICKERS: Yes.

MS. BEYER: Because I remember the request was made, which I fully support, that every one of these monthly meetings include a half-hour education session.

MS. VICKERS: Yes. This would be outside. You know, what our goal is is to have outside stand-alone five system trainings outside of the regular board meetings, and that would be in addition to what was requested.

MS. BEYER: When do we anticipate the half hour here to start?

MS. VICKERS: Well, we will talk about it.

MS. BEYER: But I mean, we are making a

commitment to have the half-hour education each monthly meeting or not?
MR. AARONSON: There was no commitment to --
MS. BEYER: That's what I am asking.
MS. VICKERS: I think it was a goal.
MR. AARONSON: It was a goal.
MS. BEYER: Well, I think it's a great idea if we could do it because you know, learning is always nice to be reenforced even if it's redundant. So something that might be outside just for a half hour --
MR. EVANS: I think that in this case, the special training, sort of repeated special training on a monthly basis, Teachers was unique in its request for this. So you know, I suggest -- I think we did at the last meeting that we work with Rocaton to see if we could get some expanded discussions. A lot of these topics these guys know in their sleep and have resources available.
MS. MARCH: May I say as educators, we always like to be educated. Even if it's redundant. Even if it's redundant.

MR. EVANS: So we will endeavor to make sure that the agenda has that when we have the opportunity. Some months are tough but we will do what we can. Okay. Good.
MR. AARONSON: Does that cover everything in your --
MR. EVANS: Yes, sir. That concludes our public session remarks.
MR. AARONSON: Any comments or questions? Okay, Ms. March.
MS. MARCH: I move pursuant to Public Officers Law's Section 105 that we go into executive session for discussion regarding the purchase and the sale of securities and updates on specific investment managers.
MR. AARONSON: Do I hear a second?
MS. BEYER: Second.
MR. AARONSON: Is there any discussion? Seeing none, all those in favor of moving into executive session say aye.
MS. MARCH: Aye.
MR. EVANS: Aye.
MR. THOMAS: Aye.
MS. VICKERS: Aye.
MS. WOLPERT: Aye.

MS. BEYER: Aye.

MR. AARONSON: Ayes carry, and we are now in executive session.

(Whereupon, the meeting went into executive session)

MR. AARONSON: Do I hear a motion to leave executive session?
MR. BROWN: I move.
MR. AARONSON: Second?
MS. VICKERS: Second.
MR. AARONSON: Any discussion? Those in favor of moving out of executive session say aye.
MS. MARCH: Aye.
MR. EVANS: Aye.
MR. THOMAS: Aye.
MS. VICKERS: Aye.
MS. WOLPERT: Aye.
MS. BEYER: Aye.

MR. AARONSON: Seeing no opposition, we are out of executive session. Let's pause for a moment to get set up.
We are now in public session. We have had an executive session, and I would like Susan to give us a summary of what we did in the executive session.
MS. STANG: Certainly.
In the executive session for the Variable Fund, one manager update was presented. In the executive session for the Pension Fund, one manager update was presented, and a result of the TIPS RFP was presented and discussed. Consensus was reached, which will be announced at the appropriate time.
MR. AARONSON: Thank you very much.
Anybody have any comments about that report?
Any other business before the board today? Seeing none, we are adjourned.
(Time noted: 11:09 a.m.)

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 11th day of January, 2015.

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YAFFA KAPLAN