

NEW YORK CITY TEACHERS' RETIREMENT SYSTEM

INVESTMENT MEETING

held on Thursday, February 6, 2014

at

55 Water Street

New York, New York

ATTENDEES:

MELVYN AARONSON, Chairperson, Trustee, TRS
MONA ROMAIN, Trustee, TRS
PATRICIA REILLY, Executive Director, TRS
CHARLOTTE BEYER, Trustee, Finance
JANICE EMERY, Trustee, Finance
THADDEUS McTIGUE, Trustee, Comptroller's Office
SUSANNAH VICKERS, Trustee, Comptroller's Office
RAFIQUE DE CASTRO, Comptroller's Office
CAROL EGLOW-SUSSMAN, Comptroller's Office
JAMES DEL GAUDIO, Comptroller's Office
MARTIN GANTZ, Comptroller's Office
MARC GROSS, Comptroller's Office
SEEMA HINGORANI, Comptroller's Office
JOHN MERSEBURG, Comptroller's Office
EVAN NAHNSEN, Comptroller's Office
PETYA NIKOLOVA, Comptroller's Office
MARC KATZ, TRS
RENEE PEARCE, TRS
PAUL RAUCCI, TRS
SUSAN STANG, TRS
ROBERT C. NORTH, JR., Actuary
CHRIS LYON, Rocaton
ROBIN PELLISH, Rocaton
MICHAEL FULVIO, Rocaton
MATTHEW MALERI, Rocaton
ROBERTA UFFORD, Broome Law Group
STEVE BURNS, Townsend
ISHAKA BANSAL, Townsend
STEVE NOVICK, Courtland
MICHAEL KOENIG, Hamilton Lane

P R O C E E D I N G S

(Time noted: 9:45 a.m.)

MS. REILLY: Good morning. Welcome to the February 6, 2014 investment meeting of the Teachers' Retirement System of the City of New York. I will start by calling the roll.

Mel Aaronson?

CHAIRPERSON AARONSON: Here.

MS. REILLY: Janice Emery?

MS. EMERY: Here.

MS. REILLY: Sandra March?

(No response.)

MS. REILLY: Mona Romain?

MS. ROMAIN: Present.

MS. REILLY: Joseph Lewis?

(No response.)

MS. REILLY: Susannah Vickers?

MS. VICKERS: Here.

MS. REILLY: We do have a quorum.

I'll turn it over to the Chairman.

CHAIRPERSON AARONSON: Thank you very much.

Before we start today, I'm sure everyone has heard that Teachers' Retirement System has suffered a great, great loss. Everybody here knew of Joel; some of

1 us knew him very well. There is an expression in
2 Yiddish, a person who is one of the 36 righteous people
3 on Earth who sustained the world is known as a "lamed
4 vavnik." Joel was a "lamed vavnik."

5 At the services several people used the
6 expression "mensch." I guess "mensch" is another
7 description of Joel. There's not one person I have ever
8 met that had anything negative to say about Joel.

9 He is going to be missed, not only by this
10 board officially, but by myself and many others in the
11 room personally, and I wonder if we can start this
12 meeting today by standing for a moment of silence in
13 Joel's honor.

14 (The attendees stand.)

15 CHAIRPERSON AARONSON: Thank you.

16 The agenda for today is that we are going to
17 get the public session of the pension fund and we will
18 have the public session of the variable funds and then
19 we will move into executive session and we will have an
20 executive session in the variable funds and then an
21 executive session on the pension funds. That will be
22 our order. So I'd like to turn the meeting over to
23 Seema.

24 MS. HINGORANI: Thank you.

25 Before we go into December numbers, which is

1 the crux of this packet, I just wanted to give some
2 highlights on January and what has happened in January,
3 because we had a rough month. There's a lot going on in
4 the market. There's a lot of uncertainty around the
5 world, concerns over China slowing, emerging market
6 currencies, several of them are showing steep declines.
7 The Fed here in the U.S. has continued to taper their
8 bond purchases, so we have now gone from 85 billion
9 dollars a month to 75 billion dollars a month to now 65
10 billion dollars a month. We have a new Fed Chair, Janet
11 Yellen, and there's uncertainty around what she might
12 do.

13 We have another debt ceiling debate going on
14 in Congress right now, so that's added to the
15 uncertainty, but when you think about all of that
16 backdrop and what the markets have done, the economy is
17 actually doing okay here in the U.S.

18 If you would turn to page 3, I will flip
19 through a couple of these economic slides.

20 On page 3, this is the ISM manufacturing
21 index. You can see here that in December we were at 57
22 and, really, any number above 50 shows expansion in the
23 U.S., so we are seeing that in these numbers so far.

24 If you then turn to page 5, if you look at
25 the unemployment rate, and it has dropped and we are

1 down now to 6.7 percent. There's a lot of debate going
2 on about was that really a real number because the labor
3 participation rate is so low, so if people aren't
4 looking for jobs, then the number will in effect look
5 low but, in fact, it might be a lot higher. So there's
6 still that that debate going on, and then you have the
7 Fed who says: Once you get to six-and-a-half percent,
8 maybe we should think about raising the rates.

9 I think they have backed off on that
10 entirely because of some of the debate going on with the
11 numbers. So while there is not so much concern that
12 interest rates will start to rise, it is out maybe a
13 little further but there's still uncertainty with all of
14 this. And, so, if you then turn to page 18, I will show
15 you a chart that shows the indication of a lot of this
16 uncertainty.

17 On page 18 -- this is a volatility index.
18 It is more of a sense of the concern in the marketplace
19 and the nervousness. So while you see this number here,
20 it is 16.43, it actually right now has spiked into the
21 20's. So it has gone up a lot.

22 And, then, if you look to page 20, it's
23 another indication of how people are generally feeling
24 with the ten-year Treasury. So, it's gone up because
25 people are feeling like: Okay, the economy is doing

1 better, interest rates might start to go up -- now it's
2 dropped down to 2.7, but as of yesterday, Martin, it's
3 down to what, 2.6, 2.65?

4 MR. GANTZ: 2.6.

5 MS. HINGORANI: Again, that's the backdrop
6 that we are dealing with so far.

7 December was better. So why don't we
8 discuss December and then we will go into January. So,
9 page 27, I will just go through some highlights on how
10 the markets did across equities and bonds.

11 In December, the Russell 3000 was up 2.64
12 percent. EAFE, the developed markets, up 1-and-a-half
13 percent. The emerging markets, down 1.45 percent.
14 Core+5, down 58 basis points. High yield, up 55 basis
15 points. TIPS, down about 1-and-a-half percent.
16 Convertibles up 1.95 percent, and then let's turn to
17 page 28.

18 These are the January numbers, so you can
19 see how things have changed from one month to the next.
20 So the Russell 3000 is down to 3.16 percent. The EAFE
21 markets are down close to 4 percent. Emerging markets,
22 down 6-and-a-half percent. Core+5, up 1.8 percent.
23 High yield, up 68 basis points. TIPS, up 2.23 percent.
24 Convertibles, up 1.89 percent. A bit of a reversal
25 there in the markets.

1 Let's look to page 29. This will show us
2 how we did in December, where the returns came from.
3 Then you can see in the left bar here the one-month
4 return for December for the total fund is up 1.25
5 percent and the bulk of that, as you can see in green,
6 came from U.S. equities.

7 If you go a couple of columns over to the
8 fiscal year to date, this is through December 31, the
9 total fund is up over 10 percent. It's a great number.

10 Now, if we factor in what we saw in January,
11 which if you take into account all of those numbers we
12 just talked about, we're estimating that we were down
13 about two percent. So, still, for fiscal year to date,
14 now through January 31, which was a rough month, the
15 total fund is still up probably about 8 percent. So,
16 again, still a good number.

17 I can tell you that the assets under
18 management, for the total fund at the end of January,
19 was 53.3 billion. So we are still nicely above the 50
20 billion mark on that.

21 And if you then just turn to page 30 -- this
22 is just how Teachers is set up and this is, again, at
23 the end of December. So what we have done here is, we
24 have continued to sell down U.S. equities, and we have
25 added some to Core+5, which is that teal bar to the

1 right, and we have actually used some of that cash that
2 we raised for benefits. So we are now back within these
3 ranges on U.S. equities, where we were slightly above
4 the showing here, and we are back in the range of
5 Core+5, which is showing just slightly below the low end
6 of the range.

7 If there aren't any questions, that would be
8 it for the public session.

9 CHAIRPERSON AARONSON: Does anybody have any
10 questions?

11 (No response.)

12 Thank you for your report. I will move to
13 the public session on the variable funds.

14 MR. FULVIO: Good morning, everyone. We
15 will start with the diversified equity fund performance
16 report.

17 You can see on the first page there, at the
18 end of December, total plan assets were about 11.5
19 billion dollars. That's up slightly from the end of
20 November, given market returns. There are balancing
21 processes there, that's one of the reasons we targeted
22 Seaview Village.

23 If you wouldn't mind flipping ahead to page
24 3, I draw your attention to the middle of the page. You
25 can see for the month of December, the total diversified

1 equities fund was up about 2-and-a-quarter percent.
2 This is generally in line with the hybrid benchmark,
3 seen a few rows below that. You can see relative to the
4 broad U.S. Equity market, the Russell 3000 index. The
5 fund trailed by about 40 basis points, but that's
6 largely due -- and you can see this a few rows up and on
7 the prior page -- that's the defensive composite and the
8 international equity composite. So both were positive
9 for the month of December; they lagged the broad U.S.
10 equity market, each returning 1.1 percent for the
11 defensive composite and 1.6 percent for non-U.S.
12 equities composite.

13 The active composite during December, it
14 outperformed the broad U.S. equity market by more than a
15 few basis points; however, for the year to date,
16 calendar year 2013, it is worth noting that that
17 composite contributed nearly 140 basis points to the
18 overall performance of the variable audit.

19 The total fund for 2013 returned 29.9
20 percent, lagging the broad U.S. equity market's return
21 of 33-and-a-half percent. Again, the reasons for that
22 were similar in that the non-U.S. equity market and the
23 defensive composite lagged the U.S. equity market for
24 that total one-year time period. Although they did have
25 notable returns as well, the defensive composite was up

1 20-and-a-half percent and the international composite
2 was about 21 percent, approximately. So a strong
3 performance across the board.

4 Does anyone have any questions on the
5 diversified equity fund?

6 (No response.)

7 If you wouldn't mind switching over that to
8 the flash report and the other passport funds. Page one
9 shows the assets and performance for the bond fund. The
10 bond fund at the end of the year has 357 million dollars
11 in it. For the month of December, the fund was down
12 about 40 basis points, in line with the five-year credit
13 benchmark.

14 For the calendar year 2013, the fund was
15 about flat and that lagged somewhat behind the
16 one-to-five-year credit index, which was up about 30
17 basis points.

18 Page 2 details the assets and performance of
19 the international equity fund, the inflation protection
20 fund and the socially responsive equity fund. For the
21 month of December, the international equity fund
22 returned about 1.6 percent, just ahead of the MSCI EAFE
23 index, and that fund was about 98 million dollars in
24 assets. For the year to date, that fund was up about
25 20.8 percent and that lagged somewhat behind the MSCI

1 EAFE index.

2 The inflation protection fund was about 37
3 million dollars at the end of the year, and was about
4 flat on the year -- sorry, about flat for the month of
5 December, ahead of the TIPS benchmark, and slightly
6 behind the CPI benchmark. For the year-to-date, through
7 December 31st, that fund returned about positive 66
8 basis points, outperforming the TIPS benchmark, although
9 trailing its CPI benchmark.

10 The socially responsive equity fund, at the
11 end of December was about 63 million dollars in assets.
12 For the month of December, the fund returned positive
13 2.6 percent, just ahead of the S&P 500 index, which
14 returned about 2-and-a-half percent. For the one year,
15 that fund had a very strong performance, returning 37.7
16 percent, which was more than 3 percentage points ahead,
17 with 32 percent return of the S&P 500 -- for that month.

18 CHAIRPERSON AARONSON: I have a question
19 about the benchmark for the international equity fund:
20 Since it is now a fund that has the developed markets
21 and the emerging markets in it, do you think we could
22 get a benchmark which has those two proportions that the
23 account is, so we can see how well --

24 MR. FULVIO: We could do some work to
25 examine to what extent the total amount for emerging

1 markets that's in the fund and come up with a mix that's
2 appropriate. I do point out that the EAFE index is just
3 a developed market benchmark.

4 CHAIRPERSON AARONSON: Especially the
5 emerging markets did so poorly. I would think maybe
6 that if we just compared our large country markets to
7 the EAFE, we might have done very well.

8 MR. FULVIO: Yes, that's a good observation.

9 MS. PELLISH: It's a modest exposure, but I
10 think, Mel, you make a good point, because even though
11 it's a modest exposure, the disparity between the
12 developed and the emerging is so huge, even a small
13 allocation can make a difference. So we will do that.

14 CHAIRPERSON AARONSON: Thank you very much.

15 MR. FULVIO: Were there any questions on the
16 performance through December?

17 (No response.)

18 Seema has already spoken a little bit about
19 performance for the public markets in January, so we
20 will just briefly touch on this report, the preliminary
21 benchmark report, which shows that for January, the
22 Russell 3000 is down about 3 percent; developed equity
23 markets within the U.S. were down about 4 percent; the
24 defensive composites were down 1.6 percent -- the
25 benchmarks, that is; and the diversified equity fund

1 hybrid benchmark, down about 3 percent, which we would
2 expect to track somewhat closely to the diversified
3 equity fund for the month.

4 The one-to-five-year credit benchmark that
5 we use for the bond fund is up about 50 basis points for
6 the month, and as we noted earlier, the EAFE index was
7 down about 4 percent. The inflation protection fund's
8 underlying strategy, as you can see there, the all-asset
9 fund, is down about 1-and-a-quarter percent for the
10 month, and the Neuberger firm ending strategy for
11 socially responsive is down about 5 percent.

12 Any other questions?

13 (NO response.)

14 CHAIRPERSON AARONSON: Thank you very much.

15 Does that conclude your --

16 MS. PELLISH: That concludes the public
17 session.

18 CHAIRPERSON AARONSON: I think now we are
19 going to go into executive session.

20 Do I hear a motion?

21 MS. ROMAIN: I move that pursuant to Public
22 Officer's Law Section 105, to go into executive session
23 for the purposes of discussing sales and purchases of
24 securities.

25 CHAIRPERSON AARONSON: Is there a second?

1 MS. BEYER: I second it.

2 CHAIRPERSON AARONSON: Any discussion?

3 (No response.)

4 Seeing none, all in favor of going into
5 executive session, say "Aye.

6 (A chorus of "Ayes.")

7 Any opposed?

8 (No response.)

9 Okay, the motion carries and we are now in
10 executive session.

11 I think we have to wait a minute.

12 (Whereupon, the meeting continued in
13 Executive Session.)

14 (The public session continues on page 161.)

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1 (Whereupon, the public session of the
2 meeting was resumed.)

3 CHAIRPERSON AARONSON: We are now in public
4 session.

5 Susan?

6 MS. STANG: In the executive session for the
7 variable funds, two manager updates were presented.
8 During the presentation of the active composite of
9 Variable A, consensus was developed and will be
10 announced at the appropriate time.

11 In the executive session of the pension
12 fund, several manager updates were presented. A
13 presentation on capital markets assumptions was
14 presented and discussed. Two private-equity investments
15 were presented and discussed. Consensus was reached,
16 which will be announced at the appropriate time.

17 A real-estate investment was presented and
18 discussed. Consensus was reached, which will be
19 announced at the appropriate time.

20 A contract extension for a service provider
21 in infrastructure was discussed. Consensus was reached,
22 which will be announced at the appropriate time.

23 An infrastructure investment was presented
24 and discussed. Consensus was reached, which will be
25 announced at the appropriate time.

1 CHAIRPERSON AARONSON: Thank you very much.

2 Do I hear a motion to adjourn?

3 MS. BEYER: So moved.

4 MS. ROMAIN: Second.

5 CHAIRPERSON AARONSON: Any discussion?

6 (No response.)

7 CHAIRPERSON AARONSON: All those in favor
8 say "Aye."

9 (A chorus of "Ayes.")

10 Any opposed?

11 (No response.)

12 CHAIRPERSON AARONSON: We're adjourned.

13 (Time noted: 2:10 p.m.)

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

I, JEFFREY SHAPIRO, a Shorthand Reporter and
Notary Public, within and for the State of New York, do
hereby certify that I reported the proceedings for the
New York City Teachers' Retirement System, on February
6, 2014, at 55 Water Street, New York, New York, and
that, to the best of my ability, this is an accurate
transcription of what transpired at that time and place.

IN WITNESS WHEREOF, I have hereunto set my hand
this 17th day of February, 2014



JEFFREY SHAPIRO, Reporter