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NEW YORK CITY TEACHERS' RETIREMENT SYSTEM
INVESTMENT MEETING
held on Tuesday, March 19, 2013
at
55 Water Street
New York, New York

ATTENDEES:

MELVYN AARONSON, Chairperson, Trustee, TRS
SANDRA MARCH, Trustee, TRS
MONA ROMAIN, Trustee, TRS
PATRICIA REILLY, TRS
JANICE EMERY, Trustee, Finance
JUSTIN HOLT, Trustee, Finance
LARRY SCHLOSS, Trustee, Comptroller's Office
THADDEUS McTIGUE, Trustee, Comptroller's Office
VINCENT CHIN, Trustee
SAM FLAKS, TRS
JOEL GILLER, TRS
MARC KATZ, TRS
RENEE PEARCE, TRS
LIZ SANCHEZ-PAZ, TRS
SUSAN STANG, TRS
LIZ CALDAS, Comptroller's Office
ADI DIEGI, Comptroller's Office
MARTIN GANTZ, Comptroller's Office
SEEMA HINGORANI, Comptroller's Office
MARINA MEKHLIS, Comptroller's Office
KATHY MARTINO, Compotroller's Office
BARRY MILLER, Comptroller's Office
YVONNE NELSON, Comptroller's Office
TATIANA POHOTSKY, Comptroller's Office
ROBERT NORTH, Chief Actuary
INGA VAN EYSEN, Corporation Counsel
ROBERTA UFFORD, Groom Law Group
CHRIS LYON, Rocaton
MICHAEL FULVIO, Rocaton
VINCENT CHIN

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P R O C E E D I N G S

(Time noted: 9:00 a.m.)

MS. REILLY: Good morning. Welcome to the March 19, 2013 investment meeting of the Teachers' Retirement System. I will start by calling the roll.
Melvyn Aaronson?
CHAIRPERSON AARONSON: Here.
MS. REILLY: Justin Holt?

MR. HOLT: Here.
MS. REILLY: Vincent Chin?
MR. CHIN: Present.
MS. REILLY: Sandra March?
MS. MARCH: Present.
MS. REILLY: Mona Romain?
MS. ROMAIN: Here.
MS. REILLY: Thad McTigue?
MR. McTIGUE: Here.
MS. REILLY: We have a quorum.
CHAIRPERSON AARONSON: The first thing I'd like to do is welcome Vincent Chin to his first meeting.
MR. CHIN: Thank you.
CHAIRPERSON AARONSON: The agenda today is going to begin with the public session. And the first order of business in the public session is going to be a review of what has happened.

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Mr. Schloss?
MR. SCHLOSS: Okay. I have the monthly performance. Perhaps speed things along.
Does anybody have questions on the quarterly performance?
CHAIRPERSON AARONSON: I had a question. In looking at the quarterly performance -- comparing the results of the our investments with the results of -- exactly the same as the hybrid, we discovered that for many periods we trailed the hybrid. I wonder if you have information on why that is so?
MR. SCHLOSS: Of the policy benchmark?
CHAIRPERSON AARONSON: Yes.
MR. SCHLOSS: It's a combination of two things. One is the managers and one is the allocation effect. In general, I'd say historically it's more manager than asset allocation effect. I think the manager effect is now less.
I think that the biggest thing that's in the allocation effect is, you recall the asset was -- spring, summer fall of 2011 we went to cash, defensive against the euro. And then we got out of cash and put the money back in. So what you're seeing below the benchmark is primarily that effect; the effect of something that was risk averse, but the cost of risk

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averse is you didn't earn a lot of money, risk free as well as earnings free. That runs off.
So what you will see, again, the money got put back in, probably, I'd say, by the end of the third quarter of last year. So then on it's probably plus or minus about the same, and I think the fiscal year is pretty much on the benchmark.
CHAIRPERSON AARONSON: Thank you.
Chris, anything to add?
MR. LYON: In looking at the performance

relative to the benchmark. As well, we concur with those comments. We think that the allocation effect has become a larger fact in recent periods. Some of the allocations are related to temporary targets in parking places for assets. And some of those are moves to rebalance or not rebalance, in light of trying to be defensive in some cases, or to take advantage of dislocations in the market.

Again, we do concur that those seem to be the main drivers relative to that.

CHAIRPERSON AARONSON: Thank you.

Anybody else have questions?

MR. HOLT: Small question on that.

I'm looking at the three year, slide 12, on the same topic as we've been discussing. And it looks

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like manager contribution has been really good. So based on this, BAM and the consultants have done a great job of identifying managers who are outperforming on a gross basis.

Then you use the allocation effect there. What I'm wondering is, I found this commentary useful -- page 12 of the quarterly book you sent around. You've got a manager effect of positive 26 basis points.

MR. SCHLOSS: My 12 is different.

MR. HOLT: This one was sent to my office yesterday. The bar chart here, you've got performance attribution, total plan.

(Indicating.)

This one. The three year figure.

So there you see what's driving it. I found both your feedback, Larry and Chris, helpful.

I was wondering, would it make sense, since we seem to be good at manager selection and sometimes asset allocation -- I understand a lot of it is parking places and noise, but some of it is things in our control -- would it make sense to keep tabs on it either through written commentarey or some other metric to take advantage of what we're good at, manager selection, and I guess reduce any unexpected outcomes through asset allocation noise effect?

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MR. SCHLOSS: Look at page 16, the three year number, there's only two numbers that matter. One is the cash, 28 bips, underweight fixed income, which is the same. And the rest are all spot on. So that was it. I'm sure if you pro forma that out, that one move, it would be pretty much right on.

MR. HOLT: I guess what I'm asking is, if in the future, is that something we want to separate more and reduce deviations, because it doesn't add as much value, and focus more on active, selecting managers where we are getting bang for the buck? I'm throwing it out there. Through reporting, through periodic review of what we're good at and things harder to control and our management efforts?

MR. LYON: I'll start.

One thing we could do as we go through it in future quarters and presenting the report is to make sure we touch on this page, because this is something that can change over time.

The second is that not all these over and underweights, if we were to be on target, it may result in over-engineering the benchmark. For instance, cash isn't typically included in the benchmark, it's almost impossible to operate without it, the ongoing need of the system and transitions between strategies.

And then places like fixed income, there may be reasons to maintain underweights; for instance, in light of where we are relative to history in terms of the interest rate cycle, for example.

So while that has been an area that shows up negatively in the attribution, that could very well be something that shows up positively; let's all guess when, but I think we're expecting a change.

So I do think it appropriate to look at this periodically as a group; but unless you over-engineer a benchmark, I think it will be very difficult to have something that you expect to track perfectly without constantly changing the benchmark to reflect some of the moves and transitions.

MR. HOLT: So I understand what you're saying and definitely don't want to over-engineer, and I understand it's impossible to replicate the benchmark exactly, because transaction costs are expensive and there are other operational impediments.

What can we do to flush out whether the deviations that are in our control are cost prohibitive to determine whether or not we're being compensated for taking those? And if we're not, what would make sense as far as eliminating that sort of performance noise?

MR. SCHLOSS: You have the monthly -- the dashboard, exactly where we are every month. The reason to go through that monthly is to report to the board changes during the month, as well as where the risk is allocated.

So I don't know how to do it any more granular than monthly, because we don't move it very often.

CHAIRPERSON AARONSON: Okay.

MR. HOLT: I'm good.

CHAIRPERSON AARONSON: That's the quarter.

MR. SCHLOSS: More interesting is the January numbers.

MR. GANTZ: Extra copies here.

MR. SCHLOSS: For a little color; the last time we got together, you may recall a big risk was taken away in the 4th quarter. The euro had blown up again. There was the Fed holding things together since the election in November, and then the general economy basically slowly starting to heal, because the Fed had telegraphed exactly what it was doing, which was keeping rates low.

People finally said risks are gone, it's time to have a good market. So that's what happened in January, in a nutshell. A good market. Plus it was a nice Christmas. There were bonus pools, plans. So you

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end up, on page 39, people convincing themselves that all the risks have gone away -- which they haven't -- let's have a good January.

So if you look again at the far left-hand side, the U.S. Equity markets were up 5 to 6 percent. EAFE was up 5, emerging markets lagged a little bit. That meant that the risk was on, so things that were risk averse like Treasuries were down 1 to 2 percent, fixed income.

That kind of carried on a little more mutedly next month, February, which was also generally up. The stock market was up a little because it was taking a breather from what happened in January -- and things backed off a little bit, bounced back a little in Treasuries.

If you go to page 41, you see again in the far left hand column, because we're heavily weighted to equities, 3 percent for the month of January. The five year number is up about 10 percent. So for seven months we're up 10 percent.

January was also up a little, so probably about 10. March is good also. So again, we're drifting upward quite nicely. If you look at all the colors, basically everything is positive. TIPS is down a little bit. But all good things.

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The asset allocation goes the other way, which is on page 35. We continued, Justin, the asset allocation, the past four or five months we haven't done anything.

Having said that, the denominator effect made us drop below the bottom of the range in Core+5, as you can see; I guess it's the turquoise color in the middle of the page.

Before I mention that -- again, you can see we're pretty much spot on everything. Overweight U.S. Equities, which was totally the right thing to be; underweight a little in Core+5.

We had some extra cash. We put the cash into emerging market equity, up to policy, because we were underweight .7.

I want to talk to the board as well as

Rocatan, have Rocaton do some work on Core+5. If you look at page 36, and look at the Core+5 line -- the debt portion, which is the bottom half of the page, the subtotal Core+5 -- the actual number is 16 and a half percent of the fund, and the policy target is 18 percent.

So actually, not far from the policy. What drives the policy target up to the adjusted policy are the adjustments. So we run the asset allocation to the

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adjusted column, which is adjusted policy and 21.4. We have these bands, plus or minus 4 percent. Therefore you get to the bottom of the range, 174, and all of a sudden our 165 is below.

If you go to the next page, the first thing is called Impact of Adjustments. There are two things that are parking places here. One is because of real estate. So we take whatever is uninvested in real estate, put half in Core+5 and half in U.S. Equities, which we like, been doing that for a while.

But because Teachers has an allocation in the asset allocation to emerging markets debt, we put half of the money which is not in emerging markets debt into Core+5 and half into high yield.

And as we have talked about it with John Bright, our head of risk, we're not sure that's necessarily the correct parking place. It might make more sense to weight it to emerging markets equities and high yield, to more mirror emerging markets debt.

Again, the way it's set up now is high yield and Core+5. So what we would like to do is have Rocaton reexamine that parking place before we move to put more money into Core+5; because on the merits, Core+5 is not a good place to be today, which is why we're at the bottom end of the range. And it seems like we're

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mismatching parking places which causes us to mismatch our asset allocation, which will cause us to not make money.

So I'd like to have Rocaton come back next month with some more analysis as to what might be the right parking place for emerging markets debt before we try to rebalance to the bottom of the range in Core+5.

Is that okay with everybody?

MS. MARCH: Seems to make sense.

MR. LYON: Given the timing of next month's meeting being very soon, and the deadlines --

MR. SCHLOSS: In the interim we're not going to do anything. We'll wait for your report.

That said, that ends the month. It was a great month. Don't annualize the month.

(Laughter.)

Don't annualize the seven months. We're trying to get to 7 and we're at 10.

I should probably point out also, on page 33, you can see that the Teachers pension fund is now $48.1 billion, the highest ever, above the ten year trend line of 8.4. So all systems are pretty good. So we're off to a good beginning of the calendar year and a good fiscal year.

Any questions on January?

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CHAIRPERSON AARONSON: Does that end your public?

MR. LYON: With respect to Passport in public session, we have distributed in advance and also again today, the quarterly reports. They reflect performance and asset allocation information to year end. And because of them being distributed in advance and we discuss the performance every month, in the interest of time I'll see if there are any questions on those. Otherwise I'll talk about January.

Not seeing any questions or hearing any.

For January 31, also distributed in advance, starting with the equity fund, Variable A, we can see, using round numbers, $10.1 billion in assets, all deposits in line with target; strong performance, page 3, of the month, a little over 5 percent. And that was slightly behind the overall benchmark.

When we looked across the manager strategies, generally speaking, without exception, the returns were positive 2 and a half percent roughly to positive 7 percent. So pretty strong month across the board. And so that's the summary version of the performance.

With respect to other Passport options in the separate handout, variable B, during the month of

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January the return was negative .1 percent. You can see we're down 11 basis points on a net of fees basis, very close to that of the benchmark.

And if you flip the page, you can see the performance and asset allocation and other options. So the non-U.S. Equity fund had a 4.8 percent return. That was a little bit behind the overall EAFE benchmark.

The PIMCO all asset fund had a positive -- inflation protection on the whole had a positive 1 percent return, ahead of its benchmark. We don't expect to track closely over time in the long run...

And the socially responsive equity fund, which at times last year, as commented on, relative underperformance, just under 7 percent for the month. The broad benchmark was up 5.2. So they have made some of that on the performance. And having just met with them, together with TRS, we feel better about how that fund...

I'll stop there for questions on January.

We've also passed out the benchmark report for February, as well. And what you can see, February wasn't as strong as January; but for the U.S. Equity markets, a positive month. International was negative and fixed income was modestly positive, and underlying funds of the inflation protection and socially

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responsive options had a very slight negative return, and the Neuberger outperformed by 2 percent again. That's helping. I factor that into my comments of more recent performance...

So I will stop there for questions on these reports. That's everything for Passport for public session.

CHAIRPERSON AARONSON: Thank you very much.

Do I hear a motion?

MS. MARCH: I move that we go into executive session under Public Officer Law 105 for the purpose of discussing sales and securities.

CHAIRPERSON AARONSON: Do I hear a second?

MS. ROMAIN: Second.

CHAIRPERSON AARONSON: Any questions or comments?

Seeing none, all in favor of going into executive session?

(A chorus of "Ayes.")

Anybody opposed?

We're now in executive session.

(Discussion off the record.)

MR. KATZ: We need a motion to go back to public session. We'll do attorney client after we close the meeting.

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

MS. ROMAIN: Second.

CHAIRPERSON AARONSON: Discussion?

All in favor?

(A chorus of "Ayes.")

Any opposed?

We're now back in public session. We will have a summary of what we did.

Ms. Stang, can you give us that summary?

MS. STANG: In the executive session of the pension fund there was an update on the opportunistic fixed income program, which was presented and discussed.

An opportunistic fixed income investment was presented and discussed. Consensus was reached, which will be announced at the appropriate time.

There were presentations on two international managers. Consensus was developed, which will be announced at the appropriate time.

Several manager updates were presented, and there was a review of the private equity program.

In the executive session of the variable fund there were two presentations of new equity managers for Variable A, which were discussed, and a manager update was presented. Consensus was reached, which will

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be announced at the appropriate time.

CHAIRPERSON AARONSON: Thank you very much.

MS. STANG: You're welcome.

CHAIRPERSON AARONSON: Motion to adjourn?

MS. ROMAIN: I move that we adjourn.

MS. MARCH: Second.

CHAIRPERSON AARONSON: We are adjourned. Enjoy lunch.

(Time noted: 12:44 p.m.)

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 in the within-entitled matter, on Tuesday, March 19, 2013, at the offices of the 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 _____________, 2013.

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JEFFREY SHAPIRO