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NEW YORK CITY TEACHERS' RETIREMENT SYSTEM
INVESTMENT MEETING
held on Thursday, May 3, 2012
at
55 Water Street
New York, New York

ATTENDEES:

MELVYN AARONSON, Chairperson, Trustee, TRS
SANDRA MARCH, Trustee, TRS
MONA ROMAIN, Trustee, TRS
LARRY SCHLOSS, Comptroller's Office, Trustee
JANICE EMERY, Trustee, Finance
THADDEUS McTIGUE, Trustee, Comptroller's Office
JAMIE SMARR, Trustee, Finance
MARC KATZ, TRS
SUSAN STANG, TRS
MARTIN GANTZ, Comptroller's Office
JOEL GILLER, Comptroller's Office
MARC GROSS, Comptroller's Office
SEEMA HINGORANI, Comptroller's Office
MARK KIM, Comptroller's Office
KATHY MARTINO, Comptroller's Office
BARRY MILLER, Comptroller's Office
YVONNE NELSON, Comptroller's Office
PETRA NIKOVA, Comptroller's Office
PAUL J. RAUCCI, Comptroller's Office
ROBERT C. NORTH, JR., Actuary
ROBIN PELISH, Rocaton
CHRIS LYON, Rocaton
RENEE PEARCE
ROBERTA UFFORD, Corporation Counsel
STEVE BYRNES, Townsend
SARAH CACHAT, Townsend

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P R O C E E D I N G S

(9:50 a.m.)

MR. KATZ: Good morning. Welcome to the investment meeting of the Teachers' Retirement System, May 3, 2012 meeting. We will begin by calling the roll.

Melvyn Aaronson?

CHAIRPERSON AARONSON: Here.

MR. KATZ: Kathleen Grimm?

(No response.)

Not here.

Sandra March?

MS. MARCH: Present.

MR. KATZ: Janice Emery?

MS. EMERY: Here.

MR. KATZ: Freida Foster?

(No response.)

Not here.

Mona Romain?

MS. ROMAIN: Present.

MR. KATZ: Larry Schloss.

MR. SCHLOSS: Here.

MR. KATZ: We have a quorum, so we can begin. Chair?

CHAIRPERSON AARONSON: Thank you very much. Welcome, everybody. And today, the first

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item on the agenda will be the report by Larry on the status of our pension fund.

MR. SCHLOSS: Thank you, Mel.

Does everybody have their monthly packet from March? Good.

Pretty quickly through the economics, just because they haven't changed very much. I'd like to say that we're slowly trending upward in the economy and you can see that on page 6. Again, while the weekly unemployment claims bounced around, we can see a trend that goes very slow, and that's the problem.

And again, just rolling through here, if you go to page 10, I'm a little bit worried about the architectural billing index because that's a precursor for a year or two's worth of construction, so that's not good; you'd like to see it going up. It also means, again, a slow recovery.

Page 11 shows that housing prices are still going down. I heard a rumor that it was stabilizing, but it's just a rumor.

Again, if you just jump now to page 22. So, again, the economy is getting better, I'd say with periodic thunderstorms from Europe, it's probably the best way to phrase the whole thing. And you can see on 22 that there was a rumble in April, and that's why the

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VIX started bouncing around. Rumbles will come out of the blue, rumbles will be coming out of France depending on the election. While Europe's trying to figure out austerity or growth, you can't just flick the switch either way, so this is going to be complicated and be with us for a couple of years.

With that said, on page 23, as you can see, the Fed is still busy at work keeping U.S. rates low. Operation Twist is running out in June, they haven't said what's next. My guess is they're going to hold their powder as long as possible and if it continues to drift, I think they'll stay to the sides, but if they could continue, we'd like them to do more.

You can see on page 24, ten-year Treasuries, again, during the rumble in April, there's a flight to safety, the ten-year Treasury has popped up to about 220, they're back down to -- before the rumble, they were up to 220. Then the rumble came, brought up 2 percent again, now it's about 191 so people are a little bit worried again.

You can see it on page 25 as well, when things were good, high yield bonds were, high yield, as well as investment grade is tightening. It's pulled back a little bit but we expect them to continue to tighten as the Fed keeps rates as close to zero as

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possible.

The good news is, on page 27 which is corporate profits, they keep growing, they might be contracting a little bit, but overall profits are going up. Profits go up, they hire more people and then they kind of roll it forward.

You can see the PEs on page 28 of the major markets. And again, equities are not expensive, which is why we over-allocated to equity.

Jumping to page 30, you can see pretty graphically from mid-December when the ECB pumped a trillion plus dollars of three-year loans into the bank system in Europe, equity markets all went up, U.S. Equity markets went up more than the other ones, and EAFE and the euro and the emerging markets pretty much stalled out as did the U.S. market for the last six weeks or so.

But again, a nice rebound, which we'll get to in a second, as to how we profited from that.

If you go to page 32, you can see that at the end of March, we had about $44.6 billion, which is, I think, an all-time high. And I tell you that I think in April we're up a little more, so I think we might be north of $45 billion, which would be great.

You can see how that looks on page 33 on a

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ten-year cycle. I'm not sure if we double it in five years -- double in ten years, it's seven, right? So, it looks like about 7 percent for 10 years, despite the dip. And again, in a decade, it kind of went nowhere; that's pretty good, actually.

If you jump to page 40 for a second -- and we're going to reorder this -- in the month of March, if you look at the top, numbers on the left, at one month, the equity markets in the U.S. are up about 3 percent, they were down about 3 percent in emerging markets, and the bond market in the U.S. generally pulled back a little bit in March. But because we are as weighted as we are in equities, we had a good month.

If you jump to page 36, 36 is the adjusted policy weight for the asset allocation that, as you all know, we're implementing. Things are pretty much where we'd like them to be. Having said that, we've reduced EAFE by about a percent and put that money into emerging markets, as we try to rotate more into emerging markets.

We also put another half percent into emerging markets for cash, so its cash number is now approaching zero. We're working on opportunistic fixed income, which I think is the chartreuse way on the right side. They're slowly drawing down capital.

The number that I would point you to that we
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should talk about, and probably the best way to talk about it is on page 37. It's a high yield number. The high yield numbers in the third block, the numbers right below TIPS, and you could see that we're about 6 percent. But because of the parking places that we have, we're supposed to be at 8.9 percent, that's just sort of the way the math works, I would say 8.9 percent -- let's call it 9 percent in high yield is probably too much despite all the thought that we put into parking place.

So, we're not going to get to the 8.9 percent, because getting into that is difficult to get out of, so it'll look like we'll be a little short.

Having said that, Martin's going to talk about bank loans, which is something of a proxy for high yield and something of a proxy for other things that we'll talk about as well. But we're not going to shoot to get the 8.9 percent adjusted parking place, it's too much, too much high yield bonds which can become very illiquid when markets go the wrong way.

And again, what's pushing it up is the parking place is for -- primarily for opportunistic fixed income, and Martin and Adi are working very hard to finish up some documents, so we just don't think it's the right thing to park there. We don't have ETFs,

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which are more minimal, just -- we should talk about some more, which we will talk about in the future a little more.
So, if you look at page 41, all those things, particularly, the ECB moving the equity markets up caused the second column from the left, the first quarter to be up about 8 percent, which is pretty good. That's really good considering all the noise that preceded it. And the last month -- March was up about a percent, so the total is about 3-1/2 percent.
I think we're up a little, again, in April, so maybe we're getting close to 4 through April, so we had May and June, so we're -- we'll get close to where we're supposed to -- get to it if the markets cooperate, if they don't, well, we'll see what happens. But again, it was equities-driven.
During the past quarter, the equity markets might be running out of gas a little here, but we'll see. The rest are all the manager reports, so let me just quickly --
Seema, do you have any equities comments?
MS. HINGORANI: No.
MR. SCHLOSS: Martin, anything on fixed income?
MR. GANTZ: We'll be talking about that
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later in executive session.
MR. SCHLOSS: Barry?
MR. MILLER: No.
MR. SCHLOSS: Yvonne?
MS. NELSON: No.
MR. SCHLOSS: So, that ends the month, it was a good month, it was a great quarter. On to the second quarter, the fourth quarter of the fiscal year, second quarter of the calendar year.
So, that ends our review of March.
We have John Bright here today. John is an expert in risk management. Where's John? Sit here next to me.
(Indicating.)
MR. BRIGHT: I've actually met this board once before in the fall, very briefly, but to just give you a little background. I was a physicist until my mid-30s, and then went to Wall Street as many physicists have done. And I ran a trading desk for a while. I worked as what they call a quant, where we build mathematical models, but most of my time was spent in risk management.
And what the risk manager of the Wall Street firm does is many things, but two that I think overlap with what I'm trying to do here. One of them is kind of

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to make sure that we know what we have to close a business every day, aggregate positions from around the world, and also try to express the risk in a handful of numbers for senior management so that they can see if our risk has changed dramatically from day to day, which parts of the business are taking risks, which are not, and so on.

And the other, and to my mind, more important part, the thing that a risk manager does is to be a professional skeptic within a firm. There are many people in an investment bank inventing many, many strategies for making money, and they are very much concentrated on how much money we might make rather than how much money we might lose if things go wrong. So, it's the risk manager's job to be almost exclusively focused on what could go wrong. So, we try to do that for the pension funds as well.

Now, with the overall funds, the five funds together, the 120-and-some-odd billion dollars under management is comparable to the balance sheet of a good sized bank. But, we do not need a risk management function of the sort that you would find in an investment bank where -- my last job -- there were roughly 150 people reporting through me, and we have a huge organization and we're churning out reports daily,

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and reporting to senior management constantly. But here it's different because the pace is very different. Positions change at a very measured pace.

So, if I were to come back in a month and give you a risk report, it would look almost identical to the one I'm giving today. So, we don't need to generate reports with the frequency, and there aren't as many ideas bubbling up to be skeptical of as it would be at an investment bank.

So, the staffing of the risk department here is me a couple of days a week, and then a very talented young man, Charles, who is full-time and has produced, essentially, every number you are seeing in these reports.

So, with that in production, let me turn to the first page and at the outset say I rather doubt I'm going to tell you anything about the portfolio you don't already know. So, my ambition is not to give you some new way of expressing the risk, we all know the risk, we have a lot of equity exposure. My ambition is more to give a framework for discussing the risks if over time they should become more interesting.

We now have a vocabulary for comparing how they used to be or how they have changed. And in addition, to start to create a framework within BAM

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itself, should we start dong things in a more demanding risk management? Shall we start doing derivatives or using leverage, or other techniques that require constant attention? We're trying to start to build the framework within BAM to make sure that we can control this pace.

And throughout, I want to look at two different ways of looking at the risk, both the traditional sort of short-term risk measures. What's the risk of loss in the near term? What's the volatility of our asset value over the short run? But also to look at long-term risk, because we have long-term liabilities that must be funded and we need a fairly high rate of return to fund all those liabilities.

There's a risk that is equally important to the risk of short-term loss, and that is the risk over the long-term falling dramatically behind where we hope to be by not getting the return we hoped for. So, I want to accentuate both those with both short-term and long-term risk measures.

And finally, throughout the presentation, I'd like to stress what I consider to be the limitations of statistical analysis. Statistics is the vocabulary that we all use to describe risks or volatilities and

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deviations and so on and so forth, but this is, you know -- we're not trying to model laws of nature, we're modelling the markets. And so -- they're not normal, there are many things and they change over time. So, we can try to estimate parameters with which to do statistics but they're only estimations. And so, it's important to never get carried away with statistical analysis, so I'll try to keep that in mind throughout the presentation.

MS. MARCH: Would you say being manipulated by human beings, that that's another problem?

MR. BRIGHT: Yes. But I think it's not even conscious manipulation in many cases. Statistics, and particularly as you introduce more and more high-powered statistical techniques, can dazzle people and can easily mislead -- I'll give you a famous example from my youth.

MS. MARCH: Flavor of the month.

MR. BRIGHT: But it's even -- and this is -- and I'll apologize to any of you who have a background in the social sciences, because this is sort of when social scientists make mistakes, mathematical mistakes in a story, but it's a very good illustration of what can go wrong in statistics.

There was, years ago -- for years and years, people have been going to the Arctic and counting, you

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know, how many foxes there are, how many Polar bears, how many this, that and the other thing, and they have a huge database of these. And the in '70s -- and we're always looking for patterns -- and in the '70s someone found an extraordinary compelling pattern which had a huge statistical significance.

And the pattern was, if you looked -- no matter what the species -- if you looked when the population peaked to when it next peaked, it was always about three and a half years, and this was true for every species out there. Dozens of papers were generated, people finding what the true cause of this was, was it cosmic radiation, sun spots, God knows.

Finally, they turn to a mathematician, he said, well, if you just have a random thing, it's got a 50 percent chance of going up, 50 percent chance of going down, so it's got 25 percent chance of going up and then down; that's a peak. So, if it's got a 25 percent chance of being a peak, they happens every four years. That's all it was.

That sort of things happens all the time. It's very, very difficult to design an experiment that you haven't actually put the answer into the original design and you then discovered you've got some huge statistical significance because you have discovered

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nothing.

(Laughter.)

So, that's the caution that you always have to have.

So, for the risk measures to say what we are going to look at. First of all, just market value, how much do we have equities, the thing is how much fixed income in traditional pie charts. And then the pie chart's modified somewhat to include not what is called equity, but what has behaved in the recent past an awful lot like equity, which is more than just equity itself.

Then we'll look at value at risk. Value at risk has gotten a bad name. But value at risk is actually a useful tool for aggregating the volatilities of different asset classes and rolling them up into an overall short term volatility of your portfolio. It's gotten a bad name because it was used as the measure of the amount of capital that a bank needs to require; and it has absolutely nothing to do about how we went around about losing tons of money in investment banks.

So, it was completely the wrong thing to use as a measure of capital. So, it can be useful in this context.

And then I want too look the long term risk by looking at some stress scenarios, both the 10-year

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stress and 40-year stress.
So, if we turn to the pie charts. You will see that the Teacher's portfolio has about 3/5 in equity and 1/4 in fixed income, and dribs drabs in other stocks. When we adjust it for what is not only called equity, but what behaves an awful lot like equity, is just to behave and see obvious suspects. It's high yield and convertible bonds on the next page.
We see that the equity slice grows to 70 percent and fixed income has dropped to a sixth and then a quarter. And many of us would be tempted to put private equity in the equity bucket as well. In the long term you suspect, although management of the company may be better in private equity than in public equity, you would expect that to track to a considerable extent the public equity markets but in the short run it does not track partly because the partnerships and their lags in the reporting of P&L. There is no correlation in the public equities markets in the short run.
So, now, I'll turn to value at risk. We do historical simulation of what our P&L would have been month by month, what in the past three years happened to the current portfolio, and then extract from that statistics on the likelihood of various losses.
CHAIRPERSON AARONSON: A third pie graph
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would be in order, showing what our asset allocation formula is.
MR. BRIGHT: Going forward to do the same sort of analysis, but not to what we have but what we hope to have. Yes, of course.
CHAIRPERSON AARONSON: Thank you.
MR. BRIGHT: Then on page 7 we have results of value at risk, and this was going to be a pie chart. But as you can see we had to make a bar chart, the contributions of equities to the total value of risk is bigger than the total. So, and do a pie chart, one slice is bigger than the pie. And you can see it's about two and a third billion, the value.
What dollars means is we're doing it at 95 percent. So, it's one 10 to 20. So, it's one month every two years. It's a normal fluctuation in the market. We should expect that the AUM would go down by two and third billion, maybe two and a half, maybe two. But that's roughly the numbers to look at.
And the equity contribution as $2.4 billion, so it's actually bigger. Most of the other things hardly contributed at all, because it didn't correlate very well with equities. And the reason the total was smaller than the contribution of the equity and equity-like, including high yield and convertible bonds

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and with equity here, was the flight to quality trades. So, that typically when equity markets went down, fixed income rallied and that little bit of joy that we got out from fixed income brings the overall risk down.

A couple of things I should point out. One, how good are the statistics? Not really good. We have got 36 months to look at. So, if I would to come here six months from now and the value at risk went from 2.3 to 2.5 or went from 2.3 to 2.1 or if we looked at our allocation it changed by the amounts of -- it's opposed to what we actually have, that's not meaningful, that could easily be -- we should look at it more closely and see if there's a fundamental reason for the risk number changing. But moderate changes of that size, they are all consistent with each other, the numbers, is the best you can say.

The other thing I'd like to point out is it's tempting, looking at this sort of statistics and correlations that happened in the recent past, to extrapolate them forward and so to say, we should have a substantial fixed income portfolio because it's a hedge, it brought the overall risk down.

So you not only have to look at the statistics, you have to layer on it, some judgment and knowledge of where we are in markets and interest rates

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are already zero. They don't have a whole lot of room to go down and give us another rally.

And then on the next page we have -- having done it in-house ourselves, we can now -- we're fully aware of what goes into various people's value risk models. Everyone is different. Everyone uses slightly different techniques, different ways of cutting the data. So, it's important to do it yourself to understand all of the assumptions.

And the Bank of New York has a vendor that sits on top of the custodial system and prepares value at risks -- and they give it to us. So, having done it ourselves and checked it, we can now use their reports as an example. We may cut over to using them on a production basis. We are not staffed to do constant production. And can drill them to the manager level and the value at risk manager by manager see if anybody looks out of whack; and then try to understand why what manager is unique or different, but nothing jumps off the page.

And then on the next page, page 9, we're going to some ten-year scenarios. As I said, the risk guy's job is to worry about loss. So, I picked bad scenarios and only bad scenarios to try to not buy it, the analysis, rather than going from peak to trough type

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of scenarios, I've just done full decades. So, you can actually pick worse scenarios by going from peak to troughs, but we try to remove my natural negativity by looking at discreet decades.
And the ones we have looked at are what happened in Japan. Suppose the whole world turns into Japan after their property bubble burst? And when interest rates there have been zero for almost my entire living memory, and their equity markets have done nothing, essentially.
The other is the U.S. during the years of stagflation, where we found a bit of the equity markets did not perform very well. The other is the entire world looks like the U.S. and the most recent decade to be honest, which was dreadful. And compared to the actuarial scenario of everything growing at 8 percent.
And finally, now we have private equity and we have real estate moving synchroning with the equity markets, being over the long term they will closely track. And fixed income just comes along for the ride, it doesn't matter.
MR. GANTZ: You just said I don't matter.
(Laughter.)
MR. BRIGHT: I think three times in this presentation.

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(Laughter.)
MS. MARCH: The whole thing doesn't matter. That's just a joke.
MR. BRIGHT: So, on page 10, we have the scenarios. The nice blue line going for our current $45 billion up to an excess of $90 billion is the actuarial assumption of what assets would do over ten years.
MS. MARCH: Meaning perfect world.
MR. BRIGHT: Yes, it is. More perfect would be 10 percent.
(Laughter.)
The green line is the U.S. in the 70s, where we have a substantial shortfall. If we look -- the aughts were not anomaly, but what the world holds for us, what do we got, less than half of what we would project in ten years. And similarly, if Japan scenario were to play out. So, it's bad.
MS. MARCH: If we didn't have all the thiefs and crooks, what would have happened in the aughts? If we just wouldn't involve the law without the corporations falling apart and add all the manipulations from the banking.
MR. BRIGHT: Yes. My guess, it's only a guess, is without all the things we dislike, we wouldn't have had the bubble inflate and burst. So, you would

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lose the part of the aughts that you would like as well as the part that you dislike.
MS. MARCH: That's okay. It's much better if I would have earned just what I was supposed to earn and wouldn't have needed all that extra money and maybe the whole world would not be attacking us.
MR. BRIGHT: But I think -- after the technical bubble, we reinflated very low rates. So, we weren't able to earn an 8 percent that we would have liked. Rates were very, very low. It is very difficult. In a low interest rate environment to hit the -- and that was true throughout the aughts. Rates -- people were suffering. There was enormous demand for leverage product so that people could hit their yield bogies.
CHAIRPERSON AARONSON: I want to direct to Jamie Smarr. And then the second thing, I just came to a eureka idea. Take is the whole portfolio and invest into the QP fixed fund of getting a quarter percent.
(Laughter.)
MS. MARCH: That was some eureka idea.
MS. ROMAIN: More like a hallucination.
MR. SMARR: Get people in the state legislature to know.
MR. BRIGHT: So, this is a bad ten-year
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scenario. Now, the next page is a 40-year and it's an effort to put some probability around the likelihood of bad scenarios and good scenarios. It's a toy model but it's at least some level of how good or bad could things be. In the past four decades in real terms, which were made of two terrible decades, the 70s and the aughts. In real terms, returns were negative; and two spectacular decades, the 80s and the 90s.
So, if we say the next 40 years we label billiard balls, one on the 70s and one on the 80s, and you put out the billiard ball, look at it, that's your next decade. You put it back and then at the end of ten years you pull out another. So, very simple distribution.
Well, the actuarial assumption over 40 years is $1 grows to $21.70. If we randomly choose decades in this matter, the median is almost the same, because the median is made up of two good decades and two bad ones. But if we get three bad decades either random chance or if that's the state of the world or the wonderful years in the 70s or 80s are over, then the bottom quartile.
So, we have 25 percent chance that just happens and this toy model is the way the world works. Again, we we're having $5 rather than the $21, less than a quarter of what we projected to meet, which is

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ruinous.
MR. SCHLOSS: But --
MR. BRIGHT: If we're so lucky to get three of the good decades and only one bad one, then we're all in heaven.
MR. SCHLOSS: You want to sing.
MR. BRIGHT: But, I'm not an economist by training.
MS. MARCH: I don't know if they know that even by training.
MR. BRIGHT: But to the extent one thinks that the growth years were in part fueled by the demographic bulge of the baby boom, and in their productivity in the 80s and 90s, that's over now.
MS. MARCH: They have to die fast. They live too long.
(Laughter.)
There was a report that I heard this morning on the radio. If we don't level the playing field we will have four bad decades. It was reported this morning that the workers of the United States over the course of time, recent time, have seen a 7 percent increase in their earnings. Now, top corporate management in this countries have seen an increase in their earnings. I wasn't sure if it was over 600
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percent or 700 percent. Something is wrong, because you can only buy so many objects that are $35,000.
MS. ROMAIN: "The Scream" went for $119 million.
MS. MARCH: Unless you give some of the money back to the people who actually go into the stores that the corporations are producing for, never going to have any decades of earnings.
MR. BRIGHT: Henry Ford's solution of raising everyone on production line, so they could afford his cars.
MS. MARCH: Yes. The measures have to be given and I don't know how to get it. But I really in my naive heart of hearts believe, if we don't level the playing field, it really doesn't matter what we sit here and do.
MR. BRIGHT: I don't know how one levels the playing field, but if we don't get it --
MS. MARCH: I do, I'll tell you after the meeting. We appreciate the bad news.
MR. BRIGHT: I don't have any good news.
MS. MARCH: We will go out in our other livings and fight for the good news.
CHAIRPERSON AARONSON: Have you concluded?
MR. BRIGHT: No.

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(Laughter.)
The conclusions are we can't hide the fixed income, we can't take risks out of the portfolio. We need to take risks to get this bogie going of 8 percent. And the way we've taken that risk has been almost a huge dependence on equities, in different public equity markets. And if we don't get growth decades, if we get bad decades, we're not going to get there.
So, my conclusion is that we have to start looking at some things that we might have shied away from because they're scary, derivatives, leverage; because what we are doing now is scary, the dependence on equity. And maybe I should quit before this slide.
MR. SMARR: You can put it out there, though. And we can make retirement benefits less general, maybe we would not need 8 percent.
MS. MARCH: An the 7 percent increase in their earnings which is the bulk of it, they would get even less, and those individuals will get the 600 to 700 percent increase in their earnings they should continue.
MR. SMARR: I don't want to comment on that.
CHAIRPERSON AARONSON: You know what is a scarier figure that I heard? That currently, the average CEO in America earns 217 times the amount of money the average employee in that corporation earns.
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It used to be 17 times that -- it's just scary.
MS. MARCH: Yes.
MR. BRIGHT: It does fluctuate enormously. CEOs get paid in stock options. So, in the year in which exercise the options, it could be 217 times.
CHAIRPERSON AARONSON: That's the average from what I have read.
MR. BRIGHT: But it can easily happen that way.
CHAIRPERSON AARONSON: So, Robin, do you have any comments on this?
MS. PELISH: It will all be okay.
(Laughter.)
I think this is great. I think this is the kind of discussion that the board should focus on more frequently than it had the opportunity to focus on previously. But I think it might be worthwhile to, over the next few meetings, have some time focused on this. Because this analysis is very interesting, but one of the problems with the kind of risk analysis is that you often can't wait for the decade to play out because you have you to live in the short term.
MR. BRIGHT: And also, sometimes it's a weak signal that you're falling behind, but the time to act is when the signal is weak, when it's obvious it's too

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late.
MS. PELISH: Right. So, you can't wait for the next billiard ball to be selected because you have to fund in the shorter term. So, that's one reason why paying a lot of attention to this topic is important.
And the other point I'd like to make is, you actually can de-risk portfolio which doesn't --
MR. BRIGHT: You need a lot of money.
MS. PELISH: -- which doesn't automatically mean putting a lot of money into bonds. There are other ways of de-risking that are a little bit more creative.
MR. BRIGHT: I would not say de-risking. I would say they are getting rid of the risk that we notice and want to be rid of, and substituting another risk we haven't thought of.
MS. PELISH: Yes. We only get paid for risk.
MR. BRIGHT: Yes.
MS. PELISH: But we can reduce some of the reliance on -- we should at least consider reduction of the reliance on equities.
MR. BRIGHT: Yes. But we need to get paid, meaning, be careful enough and you have to figure out if your risk --
MS. PELISH: Absolutely. So, all of that
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goes beyond what you had time to present today and so I think this is -- my only point is this is very interesting start the topic, but simply reporting the bars is just a start.
MR. BRIGHT: Throughout my career, I would make such gloom and doom presentations. People would ask me, well, what do we have to do? What fix is it? Not my job. I'm the risk guy.
MS. PELISH: It's a limited scope.
(Laughter.)
CHAIRPERSON AARONSON: What about taking one of these GSAA weekends in Hawaii.
MS. PELISH: I'm in favor.
(Laughter.)
MS. ROMAIN: What would you say would be the follow-up to this start?
MS. PELISH: I think the follow-up is precisely what was referred to. So, here is the number, are there any ways to manage this number to potentially be lower without completely sacrificing the needed returns, so --
MR. BRIGHT: And I think it's important going down like that path, almost invariably they will involve leverage is some way.
MS. PELISH: Yes.

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MR. BRIGHT: So everyone has to get comfortable with the conception of leverage.

MS. PELISH: And it's a discussion. It's a discussion where we say, These are the facts, this is a way we could structure things somewhat differently to arrive at a different set of facts, and that may or may not -- it's a very strong probability that the board after discussing those alternatives says, We're more comfortable with the reliance on public equity. We think those risks are more transparent, more clearly understood and that's where we want to continue taking it.

But we should at least spend time looking at alternative ways of incurring risk in the portfolio.

MR. BRIGHT: And I've just got to add one thing. If we go down the path incurring these other risks like leverage, we would need a much more robust infrastructure within BAM. I would not be comfortable with me and Charles being able to --

MS. PELISH: To implement, absolutely. If you're implementing leverage.

MR. BRIGHT: Yes.

MS. PELISH: You need a lot of people, more ways around that.

MR. BRIGHT: Yes.

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CHAIRPERSON AARONSON: So, I think that one of the things that's come out of this discussion is Larry is going to plan in the future that we have more discussions in this area.

MR. SCHLOSS: Right.

CHAIRPERSON AARONSON: And thank you very much, John. That's a very thoughtful report.

MR. BRIGHT: Thank you very much.

MR. SCHLOSS: Martin, next.

MR. GANTZ: Next is on bank loans. I'm handing out copies that have an extra page and slight revisions; this way we're referring to the same pages.

(Indicating.)

I prefer that you refer to the colored handout that I just gave out. It does have a couple of extra sheets and an extra page.

Bank loans are financial instruments representing a senior claim on corporate assets.

Any questions? We're done.

So, you may recall that back in 2008 during the depths of the financial crisis, I believe it was November of 2008, when bank loans were priced at historically low levels, and levels the industry never seen before, we brought the board the opportunity to invest in bank loans using a high-yield managers that

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had expertise, and the board approved, and in January of 2009 implemented that. In fact, the managers did invest in bank loans. As the prices came up -- and I will show the charts in a few minutes -- the prices now have come back to where the managers generally are not investing in the bank loans.

But we do have this presentation. It's really a refresher on what we had discussed before and it's also going to lead into what we're going to discuss next month, which is our bank loan and search process. Remember, last month, we did high yield, next month would be bank loans.

So, the first couple of pages really describe about bank loans. But before we get into that, I want to talk about, look at the main price, you are going to hear or you may read about these instruments and they're called different things. We're calling them bank loans, you may read or hear about something called leveraged loans. I'm referring to leveraged loans as well. They refer to syndicated loans. They're referred to sometimes as simply loans. They are all referring effectively the same thing.

We are here to talk as using the word "bank loans." But in case you come across documents and leveraged loans, that's what they were referring to.

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If you take a look at a picture on page 3 -- and we actually thank Rocaton for this -- it shows the capital stack of where investments or where equity and debt sits and claim on the assets. And bank loans as you see sits at the top of the capital structure.

So, they are not what we refer to as fulcrum security generally, which is security that will let someone take control of a company in distress or structuring. Sometimes it can be, depending on the capital structure. But in essence, in restructuring -- and we'll get to that in a moment -- you do receive a very high level of your principal back because you are first in line.

Bank loans are generally made to high-yield companies, that is, companies with below investment grade ratings. And many times they are made to finance LBOs, they are leverage buyouts, or the companies that are in our private equity firms are working on, much like the high-yield bonds in euros. The banks sometimes hold on to the loans, but for the most part, they didn't package them as they sell them to investors so they are not on the books of banks.

Hence the name, banks loans. Effectively they are really loans made by banks to corporations that are very senior in the capital structure. These days,

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high-yield managers, as we described in 2008 and certainly evolved further. These are high-yield managers, they also invest in bank loans and some have completely separate bank loan departments; and that's important because, especially bank loan departments, especially operationally is important because these are typically not securities as we know them. And that's why they go to the basket.

They are really stacks of documents, and the LSTA, which is a trade group for bank loans, they are working to get over time the settlement period of the issues worked on. And I can tell you in the period of time since we started with bank loans, it's gotten a lot better; but they do not settle three days like regular securities, because they are, in fact, not regular securities.

I mentioned they are in the basket, that is a bit of a head scratcher. I mentioned they're at the top of the capital structure --

MR. SCHLOSS: Basket is the head scratcher.

MR. GANTZ: Yes, in part, the basket is the head scratcher. But this pieces of baskets are head scratcher simply because high yield bonds are permitted. And we will go to the recovery rates and the default rates later; but high-yield bonds are permitted to have

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a lower -- they're lower in the capital structure. They have a lower recovery rate if there is a default.

Bank loans, which are technically safer because they have a higher recovery rate are not permitted, and they are not permitted because they are not registered generally with the SEC because they are not securities. They are effectively treated as private placements in the law, which generally are not permitted.

So, that is a bit of head scratcher. It's safer than high-yield bonds, but they are not permitted by the law, so they go in the basket.

Back to the chart on page 3, so you see the bank loans are the top of the capital structure. They come in a variety of maturities and interest rates but a really important difference and differentiation between what bank loans are and high loans, if you turn to the next page.

MR. SCHLOSS: Can I stay on this page one second? So, if you look at this table, this little chart, make believe this is a capital structure of a private equity deal, or just a non-investment grade company. So, 5 percent of our portfolio is in the bottom, in private equity; 6 percent of our portfolio is in bonds, the high-yield bonds; but zero of our

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portfolio is in the top. It's just sort of missing from our capital allocation, and as Martin is going to explain less risk, et cetera, et cetera, it's sort of odd -- again, when we look at asset allocation, things that we have in our portfolio.
MR. GANTZ: And really, one of the functions of the law.
MR. SCHLOSS: That's missing, and it shouldn't be missing. But the purpose of this whole exercise.
MR. GANTZ: Right. If you turn to page 4, this is chart to some of the differences between bank loans and high-yield bonds. Bank loans come in a variety of maturities, interest rates, but they are generally the most senior, secured instruments in a capital structure, but really a very important characteristic. If you take a look at the very top line, the Interest Rate Coupon, you see that bank loans generally -- not always, but generally -- are floating rate and high-yield bonds are fixed rate.
So, high-yield bonds would be a 5-year bond or 10-year bond, it's priced often Treasuries to 5 years or 10 years Treasury. But when interest rates rise, because of duration, you will lose money. For instance, Core+5, let's say has a five-year duration, interest
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rates magically raise, went up by 1 percent instantaneously, you would lose 5 percent. You would lose 5 percent from that 1 percent rise in interest rates, because bank loans have a floating rate of interest, and that interest rate generally -- not always, every bank loan is different, but generally gets reset very frequently, sometimes monthly, sometimes quarterly. The duration of it is effectively zero.
So, not only don't you have a negative effect from interest rates going up, but you actually benefit because the interest rate is resetting at a higher rate. So, you're collecting a higher rate, so it's a very nice complement because of the zero duration. So, we would refer to this as having pure credit risk because you're eliminating the duration of risk.
And there are several majors risks in bonds; you have credit risk, you have interest rate risk measured by duration, you have spread risks, the risk that investors will avoid or seek risky assets versus Treasuries.
The priority, as shown in the chart on the prior page, and on this page, on bank loans is senior. So, you get paid out first. High-yield bonds are generally subordinate. It's subordinate to bank loans,

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but sometimes senior because there are some banks -- there are some high-yield bonds that are issued by companies that don't have bank loans. So, those cases, high-yield bonds themselves are the most senior in the capital structure. But generally, the bank loans are most senior.

Also, this is important, the amortization, bank loans do have principal payments that the bank loan gets paid down over time; whereas the high-yield bonds like Treasury, it's a five or ten-year bond typically. You get paid interest every six months and after gets refinanced, paid off, this will get refinanced before it gets called.

And the next line shows you that it is call protected, meaning you get a bit of a premium if it does get called, whereas the bank loans are pre-payable without that penalty.

But the real key here is the floating rate versus the fixed rate and the seniority of the securities in case something goes wrong. So, let's talk about what happens when things go wrong.

Next page, on page 5, shows historical default rates. Since I mentioned that these are generally the same ratio of below investment grade that's in the high-yield universe, that closely double

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Bs and single Bs. There are few triple Cs and there are few triple Bs. So, they do default, but the default less than the high-yield bonds, which are shown in blue.

But if you turn to the next page which is very important, page 6 --

CHAIRPERSON AARONSON: Excuse me, Martin. We had these loans in our portfolio since when?

MR. GANTZ: January of 2009.

CHAIRPERSON AARONSON: So, then, there was a peak of defaults of 8 percent.

MR. GANTZ: Right. To my knowledge no, because they are buying and performing well. They are buying loans that are not the distressed loans. Those would be -- as you saw the manager last month, the distressed buyers would buy those.

CHAIRPERSON AARONSON: Thank you.

MR. GANTZ: On page 6, it is not whether the company defaults, because if you have a senior claim on assets, it's very possible you're going to get 100 cents on the dollar. And sure enough, as you see, with the exception of obviously what happened recently in the financial downturn in 2008, bank loans had a 70 to 90 percent -- 7 to 9 cents on the dollar recovery rate because of the senior claim on assets.

It also depends on the industry. It depends

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on the issue. It depends on the issuer and the assets. But the high-yield bonds are all over the place and generally have averaged about 20 to 40 cents on the dollar as a recovery rate, and it could be zero, depending where you are in the capital stack and what is left.

The next page, on page 7, it shows who owns the bank loans. And the story here is the blue bar, which refers to the CLO. CLOs are structured vehicles that refer to Collateralized Loan Obligations. And really what they are is a financial structure that uses leverage, that borrows money to buy bank loans, and then tranches them out and sells them to investors with different risk profile.

So, I want to turn a few pages, turn to page 12.

This is a 20-year price chart of bank loans. So, obviously you see that, a very steep decline in 2008 which it has recovered from. So, barring that until that time, with the exception of a very brief period, bank loans have never as a group have been priced below 90; for the simple reason that they are senior claim on assets and you're expected return at that point was about 90 cents on the dollar.

2008 was when the market melted down and

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fortunately the market has come back. High-yield market also has come back. But the important part of the chart is the blue line which is high yield, and high yield is very sensitive to the business cycle. So, you will have very, very volatile swings in pricing because of the sensitivity to the business cycle, and therefore you'll have volatility as well as lower recovery rates.

Bank loans are left since the business cycle, though some sensitivity. They're less sensitive because they violate a covenant or they go in default, they're are first on line, after government and taxes of course.

And so going back to page 7, who owns and who owned bank loans. It is mostly collateralized loan obligations, because prices were very steady versus the entire history of bank loans. They were the ideal instruments to leverage because it didn't move much in price. So, you can put leverage on top of it and not worry that you have the margin call.

Well, that changed in 2008. Investors, first of all, are harder to get leverage. Secondly, investors are trying away from it. So, slowly but surely, the CLO is becoming a smaller part of the high-yield universe' whereas the bottom part, which are orange, which is high-yield bonds, some distressed funds

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and of course, bank loan themselves, are taking institutional dollars and unleveraged leverage loans, simply buying long only leveraged loans of the bank loans that we are referring to now.
So, it's becoming more institutionalized -- I'm saying that word in a positive sense -- and it's becoming more of a mainstream product. And to give you a sense of the size of the market, the size of the market is approximately the same as the high-yield market. It's about a trillion dollars, give or take. It was higher a few years ago, but as long rates have fallen, a lot of issuers that have banks loans took an opportunity to refinance and issue high-yield debt because they locked in very low, long-term financing.
So, the bank loan market went down, still very large, but it went down. And by the way, this is what the Fed was hoping would happen, and in this case it did happen for the high-yield bank loan market.
So, it's still a very robust large market but just not at large. So, we're talking about maybe $1 billion versus $1.6 billion, as we speak.
CHAIRPERSON AARONSON: Martin, out of the 40 percent, how much of that is hedge funds?
MR. GANTZ: Good question. I have to get back to you on that. I will tell you though the hedge
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funds, it's fast money, so it would go in and out of bank loans.
CHAIRPERSON AARONSON: That's what scares me.
MR. GANTZ: It's probably not a steady dedicated amount, probably.
MS. HINGORANI: There are certain funds that dominantly own bank loans.
MR. GANTZ: We can certainly get that number.
CHAIRPERSON AARONSON: That's the part that scares me, the hedge funds.
MR. GANTZ: In 2008, the hedge funds had to get out because they were using it to lever up outside of the CLOs. And so we're becoming more of a traditional institutional investors being marketed to pension funds like yourselves that are unlevered, just like high-yield bonds.
No, it's not too much. I just said that no duration, lower risk, what's not to like? So, turn to page 8.
(Indicating.)
And you will see we compare high-yield bonds versus bank loans that are measured by Merrill Lynch index for extra high-yield.

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MR. SCHLOSS: Hold on. Let me just think about your hedge fund question which you were trying to ask, really. You were asking, if I can parse through it, you're worried about the volatility caused by the hedge funds. So, in that scenario, we all want to get out, that means the market's got a problem.

So, the market has a problem, your opportunity is to make fixed income guys to be the buyers of that stuff where you make money in theory, and the money managers that were the bank debt owners, the value would go down. But since these are senior, and to look at Martin's charts, they don't default as regularly as the high-yield bonds, so over time, as a long-term investor, you go back up.

So, you would ride this down and up, we wouldn't sell. This is a mark to market but since they are senior, you're not in a bad place in the capital structure. If it was really bad the opportunistic guy, are making money down here, and ultimately you will get your money back.

The theory of what happens if you get a big rush in and rush out and the stock market kind of goes like this too during that period. But this should have the least amount of volatility and ultimately you get your money back unless the economy completely craps out.

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MR. GANTZ: As part of the chart that you saw on page 12 --

MR. SCHLOSS: It's a good place to be. Just thinking about conceptually from a risk return.

MR. GANTZ: And part of the chart that we'll go through again that was on page 12. The price chart, the reason the price dropped dramatically, and we brought it to you in November of 2008, was because investors like hedge funds were facing redemptions that are required to sell, and investors such as pension funds were able to buy those at good prices unlevered; whereas the hedge funds had borrowed money to buy that, to increase returns.

MR. SCHLOSS: That is the key; ours will be unlevered.

MR. GANTZ: Right. So, as I mentioned, there no free lunch here. You see from the chart here that high-yield bonds, as you might imagine, because there's more risk, have a higher return; in fact they have achieved the higher return. They also have a higher risk as measured by steady deviation.

Now, the steady deviation under the Credit Suisse loan index -- there is two major indexes here, Credit Suisse (unclear) and then there's one sponsored by S&P and the LSTA, which I mentioned is the trade

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group for bank loans. The standard deviations look a little bit high, but it's very skewed by that 2008 period. If you X out that period, the 20 years, it would be in the low single digits, the volatility. And that's where we are right now in bank loans.

The next few pages show you where the bank loans, how they did -- we've ran this on Bloomberg. So, it shows you in white what bank loans did, it shows you in green what high yield did and shows in red what equities did. And it takes you 15 years to get to what capital market theory would say, which is that bank loans should have a lower return overall that high yield and equities, even 15 years equity as measured by the Russell 3000 returned 6.08 percent -- on page 11 -- and bank loans returned 5.15 for high yield returned 7.07. So, even 15 years, high yield does better than equities.

So, we showed you on page 12, the price chart with the exception of that period where a lot of distressed investors or hedge funds were forced sellers in the markets. I don't want to pick on hedge funds, leveraged investors were forced sellers in the markets. The prices generally --

MS. HINGORANI: Thanks, Martin.

MR. GANTZ: The prices generally move from 90 to 100; in fact for most of the time, it's in their
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park, right on top of the par level. We have a few other charts to show you what the spreads are and what the yields are. On page 13 shows what the spreads are, and red would be high yield, and you would expect spreads are a little higher right now. Spreads are roughly the same, apples and oranges, spreads for high yield is on Treasuries. So, that the 6 percent, 600 basis points spread and your bond -- and your bond at 2 percent, that's 8 percent.

But bank loans generally priced off the LIBOR; LIBOR is right now at about zero, maybe a little above that. Because of that, new issues investors are insisting on whether it was referred to as LIBOR floors. So, instead of having a spread over LIBOR, if LIBOR is where it is, it have to be at least 1 percent or 1.5 percent, a LIBOR floor in a lot of news issues in the market. So, the blue line is price on LIBOR.

The yield that we show on page 14, blue, is the high yield index. And at the time we ran it, this is about 8 percent, the yields maturity. Because bank loans reset many times every month, many times quarterly, we show the current yield which is about 5 percent; so of course, you have a higher capital structure, you have a lower yield.

CHAIRPERSON AARONSON: Can I ask you that

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next time you put together this chart -- you seem to split on some pages, the high yield is red some pages --
MR. GANTZ: Larry pointed that out to me.
MR. SCHLOSS: I pointed it out to him. Of course he didn't change it.
(Laughter.)
We might take his little name plate away.
MR. GANTZ: At least misspell my name.
(Laughter.)
On page 15, we summarize, where we own the bank loans? When we have this portfolio? When we mentioned that in 2008, it allows the high-yield manager to own it and in fact sure enough in 2009 we changed guidelines and the managers did buy them. But as prices came back up, they started to sell them. So, the amount that we have right now in the high-yield portfolio is de minimus, and most managers actually have zero.
The managers that are typically attracted to bank loans than the high-yield portfolio are the defensive managers, reasons they're defensive managers, so they're looking at that. But because of the tracking error verus the benchmark, they are not in the high-yield benchmark. They are cognizant of that as well. So, unless there is a compelling evaluation, they may avoid bank loan in the high-yield portfolio unless
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there is like a low valuation as there was a few years ago. But defensive managers do own some. The rest of managers will own them when there is a market dislocation.
So, for instance, last September (unclear) managers were buying bank loans because there were opportunities as prices dropped. But right now, as the market has recovered, or where the market is right now, they own a lot less. So, the amount that we own right now is pretty much de minimus and it's really a function of what's going on in the market.
Well, we do own some of them. As Larry mentioned, they are opportunistic fixed income portfolio. But that's also is dependent on the market dynamics, but this is exactly what we want. The opportunistic managers are going to be owning bank loans in two places. They are going to be owning performing loans, which is pretty much what we've been referring to and our policy allows us to lever modestly up to one time.
So because of special situations or levered one time, or they own distressed bank loans because they know in the structuring process they can be dispriced because certain investors are required to sell insurance company may be required to sell, and that distorts the

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price, so they'll be able to pick up cheaper prices and that's exactly what you want your opportunistic manager to do. So, it will depend on market cycle, it will depend on where we are in the markets. But as Larry mentioned, strategic opportunistic managers are doing.
So, in some bank loans are pure credit, they are floating rate, don't have duration, or much duration at all. They're senior in the capital structure. So, you are safer than high-yield bonds in what your recovery rate would be if there is a problem. They have lower volatility, significantly lower volatility actually, than high-yield. And as I mentioned earlier, we'll be coming back to you next month with the results of our bank loan search.
So, that's my piece. Unless you have any questions.
CHAIRPERSON AARONSON: Any questions on the high-yield bank loans?
Thank you very much.
MR. SCHLOSS: So, that ends the public agenda on the pension fund.
CHAIRPERSON AARONSON: Thank you very much. Now we can go to the public agenda of the passport funds.
MR. LYON: Good morning.
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CHAIRPERSON AARONSON: Good morning.
MR. LYON: I'd like to start by talking about the performance through March 31st and asset allocation as of March 31st for the Passport fund. I'm going to start with the diversified equity fund. And this was sent out, copies were distributed of everything I'm going to talk about.
So, as of March 31st the fund was back over the $10 billion threshold at $10.03 billion in market value, and the asset allocation was fairly close to target with the biggest difference as being of 1.5 percent overweight to the passive U.S. equity segment and slightly smaller than that underweight to international equities.
And when you look at performance, March was another positive month generally for domestic equity which dominates the allocation here in the diversified equity fund.
So, if you go to page 3, you can see the middle of the page, first column of numbers, that the return net of our fees for this fund was 2.4 percent for the month bringing the year to date or quarter, one and the same return, to positive 12 percent just in three months.
So, it was April being slightly negative

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when it comes to that. There are frozen things here and locked it in for the year. In any case, it's a great start, of course, to the year.

And when you look at what was behind the month's returns, really domestic equity in general helped and both the international and defensive composites lagged for this particular time period. Over the course of the calendar year to date so far the first quarter you can see that it is the defensive composite that has been the lowest performer, still up 6.3 percent. So, pretty strong returns for something that that's not as equity sensitive in a strong equity market.

The international hasn't lagged nearly as much, only 50 basis points roughly behind the total fund, so up 11.5 percent. So, it had been a lag over the past year. For instance, if you look at the trailing one year period, you can see the total Variable A fund for short, and it was up almost 5.5 percent, while international equity were down about 5.5 percent. So, that's the course of it, so far in 2012.

And we don't always cover this, but I thought this would be helpful and maybe we'd point the since inception results on page 5. It's always in the report, however, and what we have here for a variety of

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starting dates, managers since inception, the relative results and kind of just two summary statistics including the three indexing accounts. There are 26 different accounts underlying the diversified equity fund with different managers, and 20 of the 26 are ahead of their respective benchmark since inception to varying degrees on a net of fee basis.

And of those that are behind, all but one that are behind, less than a percent, in some cases by arguably rounded error or less than the fees. And so of those that are ahead of the benchmark, those 20 out of 26 managers that also currently represents about 88 percent of the assets.

So, that's the report on the diversified equity fund.

Now, we have a separate handout for the other Passport fund options and also through March 31. The first option is the bond fund, formerly the stable value fund; and the bond fund has about $382 million as of the end of the first quarter, and you can see its performance which is shown for the time period since it became a market value option at essentially the beginning of the year.

And you can see that for the month on a net of fees basis the bonds was down about four basic

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points. That was still five basic points better than its benchmark and all these reports are net of fees for the quarter than were -- we have a 72 basis points positive return, which is a little ahead of the benchmark.

You can see how the assets from the top right of the page are broken out by the underlying managers and the strategies.

Then on page 2, we have information about the international equity fund and the international -- as well as the inflation protection socially responsive fund.

We'll start with the international equity fund. That was about 75 and a half million dollars in the quarter end. You can see the performance in the first of the three performance tables just focusing on the folded rows right in the middle of each. The total international equity fund was down six basis points, that was 34 basis points better than EAFE for the month; and for the one-year period although it had negative 4.8 percent return, but it was still ahead of the EAFE benchmark, about half a percent.

The inflation protection fund had 28 and a half million, roughly, at quarter end and the performance was about negative half a percent; but ahead

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of the U.S. TIPS benchmark, which is negative .4 percent, slightly behind, I should say.

And for the one-year period, this fund has trailed -- it has 5.5 percent return of the underlying mutual fund of 5.3 percent return of the total investment option, which includes cash flows and cash positions; and that was several percent behind the TIPS benchmark.

We don't expect to track these benchmarks over a short time period, but over the long haul --

And lastly, the socially responsive equity fund, $37.4 million as of quarter end; and this fund has also lagged over more recent periods for the month and the one year more significantly. And we'll be following up and reporting back to you at the September meeting, as we'll be meeting with this manager as part of our rotating annual reviews. They're scheduled for the next round of meetings, and we'll be talking about that in more detail, reporting back to you.

And when you look at the since inception page, on page 3 for this option, can you see the inceptions positive results; and all of the since inception results for the investment options are ahead of their respective benchmarks.

Any questions?

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So, then, the last thing that we have for the public session is the preview of April performance for U.S. Equities. April was a modest and negative month for many parts of the fixed income market. It was a positive month and for the international market, for U.S. based investors and negative months. So when we look at diversified equity funds benchmark, it's down around 0.6 percent and we expect the diversified equity funds to be something in that neighborhood once the results are in.
You can see also for the strategies, these underlying mutual funds, the inflation protection opposite we expected would have been a positive month. And the social responsive equity not surprisingly are negative, in line with the overall equity market. So they look again to be behind the benchmark.
So, that's everything we had for the public session for the Passport funds; unless anyone else has anything to add?
CHAIRPERSON AARONSON: Any questions for Chris?
Thank you very much. That covers all of the matters that we have to cover in public session.
Do I hear a motion?
MS. MARCH: I make a motion that we go into
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executive session under the Public Officer Law 501, for the purpose of discussing sales and securities.
CHAIRPERSON AARONSON: Do I hear a second?
MR. SCHLOSS: Second.
CHAIRPERSON AARONSON: Any questions?
Ready to vote? All in favor say "Aye."
(A chorus of "Ayes.")
Nobody opposed.

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

Do I hear a motion to leave executive session?
MS. MARCH: So moved.
CHAIRPERSON AARONSON: Any second?
MS. EMERY: Second.
CHAIRPERSON AARONSON: Any discussion? All those in favor?
(A chorus of "Ayes.")
Seeing nobody opposed, we're out of executive session. And we have two things that we have to take care of. We have to meet a new employee of the Comptroller's Office, and we have to get a summary of the executive session, so I think we'll get summary first.

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MS. STANG: In the executive session of the variable funds, updates to managers were presented.

In the executive session of the pension fund, several manager updates were presented. There was a discussion of an ETI investment program. A real estate investment was presented and discussed, and consensus was reached, which will be announced at the appropriate time.

A private equity investment was presented and discussed and consensus was reached, which will be announced at the appropriate time.

MR. SCHLOSS: As you know, we're going through the asset allocations and discussions of ways to expand. The first part of the portfolio we talked about infrastructure in the past. We've hired Petra, and I'll let Petra go through her bio. But at some point working with all the consultants, we're going to come back to you with a plan, a recommendation for how to invest the infrastructure. But we're just starting it.

MS. NIKOVA: It's a pleasure to be here. Thank you for having me. I'm Petra Nikova. Since the gentleman who introduced themselves today started with theirs, I would say that I did my master's degree in public administration here in the U.S. in the market school. I'm originally from Bulgaria. So, I have

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accent, if you're wondering.

MS. MARCH: It's a New York accent.

(Laughter.)

MR. SCHLOSS: Eastern Europe.

MS. NIKOVA: I started my career with infrastructure, actually, in my prior life in Bulgaria infrastructure longs with the EBRT European Reconstruction Development Bank and New York Investment Bank.

After graduating here, I started with MBIA. After a short time with department of management and budget. So, with MBIA, I spent a lot of time doing many people finance and infrastructure finance, both in the U.S. and the U.K. as well as a little bit of Australia.

In the last four years, I spent with the European banks doing infrastructure as well, primarily in North America. So, I have pretty much spent my career in infrastructure financing, one form or another, and the government or the private sector.

MS. MARCH: Welcome.

MR. SCHLOSS: You are going to hear more. With that, that's the end of our agenda for the day.

CHAIRPERSON AARONSON: And does that complete the Passport, or we are now ready for adjournment?

0060

Do I hear a motion?
MS. ROMAIN: So moved.
CHAIRPERSON AARONSON: A second?
MR. SCHLOSS: Second.
CHAIRPERSON AARONSON: Do I see any discussion?
Any opposition to adjourn?
Then we are adjourned.
(Time noted: 1:54 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 in the within-entitled matter, on Thursday, May 3, 2012, 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 _____, 2012.

_____
JEFFREY SHAPIRO