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NEW YORK CITY TEACHERS' RETIREMENT SYSTEM

4

INVESTMENT MEETING

5

Held on Thursday, May 8, 2014

6

55 Water Street,

7

New York, New York

8

9:59 a.m.

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ATTENDEES:

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MELVYN AARONSON, Chairman, Trustee

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SANDRA MARCH, Trustee

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MONA ROMAIN, Trustee

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JACQUELINE GOLD, Trustee

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JENNIFER MALDONADO, Trustee

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SUSANNAH VICKERS, Trustee

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JAMES DEL GAUDIO, Comptroller's Office

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PATRICIA REILLY, Teachers' Retirement System

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THAD McTIGUE, Comptroller's Office

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MARTIN GANTZ, Comptroller's Office

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SEEMA HINGORANI, Comptroller's Office

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2 ATTENDEES (Continued):

3 MICHAEL KOENIG, Hamilton Lane

4 CORRIE ENGLISH, Hamilton Lane

5 SUSAN STANG, Teachers' Retirement System

6 ROBIN PELLISH, Rocaton

7 MICHAEL FULVIO, Rocaton

8 CHRIS LYON, Rocaton

9 ROBERTA UFFORD, Groom Law Group

10 VALERIE BUDZIK

11 PAUL RAUCCI

12 RENEE PEARCE

13 CHARLOTTE BEYER

14 LIZ SANCHEZ

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1 MS. REILLY: Good morning. Welcome to
2 the May 8, 2014 investment meeting of the
3 Teachers' Retirement Board. I will start by
4 calling the role.

5 Melvyn Aaronson?

6 MR. AARONSON: Here.

7 MS. REILLY: Jacqueline Gold?

8 MS. GOLD: Here.

9 MS. REILLY: Jennifer Maldonado?

10 MS. MALDONADO: Here.

11 MS. REILLY: Sandra March?

12 MS. MARCH: Present.

13 MS. REILLY: Mona Romain?

14 MS. ROMAIN: Here.

15 MS. REILLY: Susan Vickers?

16 MS. VICKERS: Here.

17 MS. REILLY: Okay. Do we have a quorum?

18 Turn it over to you.

19 MR. AARONSON: And we have a new person
20 whose name you read for the first time. So
21 can you tell us a little something about
22 yourself?

23 MS. GOLD: Sure. So my name is
24 Jacqueline Gold. I am an attorney with the
25 Department of Finance. I have been there for

1 23 and a half years in a variety of
2 capacities. And today I am here in the
3 capacity as the mayor's delegate to the
4 Teachers' Retirement System. Thank you very
5 much for that warm welcome.

6 MR. AARONSON: Thank you, and we are
7 looking forward to having a great
8 relationship.

9 So the first item of business on the
10 agenda is the report on the variable annuity
11 program.

12 MR. FULVIO: Good morning, everyone. We
13 will start with the diversified equity fund
14 report. Should be towards the top of the
15 pile. You can see towards the bottom of the
16 report at the end of March the diversified
17 equity fund, and the fund had assets about
18 11.4 billion dollars. And what you can see
19 here is also the underlying strategies within
20 the plan are generally close to their targets
21 given the ongoing rebalancing program which we
22 will be speaking about later today. I didn't
23 have any further comments on the first page,
24 but if there are any questions -- if not, we
25 can dive into the performance.

So let's maybe flip back the prior page,
and we can talk a little bit about what your
returns were for the month. The passive

1 strategies which comprise about 50 percent of
2 this fund were in line with the benchmark for
3 the month as we would expect. You can see
4 towards the top of the page the Defensive
5 Strategy Composite was up 1.2 percent due to
6 strong underlying -- strong performance from
7 some of those underlying strategies you can
8 see there. And then that obviously
9 contributed to returns for the month. Up
10 year-to-date as well, that composite performed
11 quite strong, 3.4 percent, which is ahead of
12 the broad US equity market, which is only up
13 about 2 percent so some strong returns there.
14 You can see towards the middle of the page,
15 the active US manager composite for the month
16 was down about 30 basis points on a relative
17 basis trailing a little bit, but you can see
18 for the year-to-date period up about 2
19 percent, which is in line with the broad US
20 equity market so good to see there, and then
21 on the following page, just above the
22 Teachers' total return for the month, you can
23 see the total international composite was down
24 about 40 basis points, which is directionally
25 in line with what we have seen from the broad

1 nonUS-developed equity markets, the EAFE
 2 Index, and year-to-date that composite about
 3 up about 50 basis points, so the nonUS equity
 4 exposure, which was there to serve as a
 5 diversifier, hasn't contributed to results
 6 this year-to-date but you can see still up
 7 somewhat.

8 Were there any questions on the
 9 diversified equity fund? We will flip ahead
 10 to the other passport funds report. The first
 11 page details Variable B, the bond fund. You
 12 can see total assets were about 350 million
 13 dollars at the end of March. For the month,
 14 the month was down about 28 basis points in
 15 line with its one-to-five-years credit
 16 benchmark. Year-to-date, the fund was up
 17 about 34 basis points, slightly trailing that
 18 same benchmark proxy.

19 If there are no questions, we can flip
 20 ahead to the next page, page 2, which details
 21 the assets and performance of the other three
 22 passport funds. The international equity fund
 23 at the end of March was approximately 100
 24 million dollars in assets. The inflation
 25 protection fund was about 40 million dollars

1 in assets and the Socially Responsive Equity
2 Fund was about 70.5 million dollars in assets.

3 In terms of performance, the
4 international equity fund, much like the
5 international composite of the passport fund,
6 which this fund is modelled against, was down
7 about 40 basis points for the month, and that
8 was slightly ahead of the broad EAFE
9 benchmark, which was down about 50 basis
10 points for March. Year-to-date, that fund was
11 up about 50 basis points, slightly trailing
12 that benchmark for the same time period.

13 The inflation protection fund, you can
14 see below that was up about 1 percent for the
15 year which brought its year-to-date return to
16 approximately 2.3 percent positive. Below
17 that, you can see the various benchmarks that
18 we use to proxy performance, and most notably
19 the fund has outperformed in the one month in
20 the first three months of this year. What you
21 can see here is relative to the CPI proxy, the
22 fund is exceeding that objective, as well as
23 the proxy that includes an additional return
24 which was up about 1.6 percent, 1.7 percent.
25 The Socially Responsive Equity Fund was up

1 about 35 basis points for the month of March,
2 which did trail the S & P 500 Index. You can
3 see for the year-to-date period, the fund was
4 up about 80 basis points, again trailing the S
5 & P 500 by about 100 basis points, but there
6 has been, as you are aware, strong absolute
7 performance from this fund given the returns
8 of the US equity markets over recent years
9 which has certainly helped, and you can see
10 actually over the last two years, the fund is
11 about even with that S & P 500 proxy.

12 Are there any questions on the
13 diversified equity funds -- I'm sorry, the
14 passport funds?

15 MR. AARONSON: No.

16 MR. FULVIO: We will flip ahead then to
17 the preliminary monthly benchmark report for
18 the month of April. Markets were flat to
19 modestly positive in the month of April. You
20 can see towards the top of this report, the
21 broad US equity proxy, the Russell 3000 Index
22 was up about 12 basis points for the month.
23 Below that, the developed market proxy, the
24 EAFE Index was up about 1.5 percent for the
25 month. Both markets are up just over 2

1 percent for the year-to-date with the EAFE
 2 market slightly outperforming with a .3
 3 percent return. Below that you can see how we
 4 would expect the diversified strategies to
 5 perform, which is modestly positive also for
 6 the month of April, about 60 basis points and
 7 year-to-date probably closer to the 3 percent
 8 mark, and then you see below that the
 9 diversified equity fund hybrid benchmark,
 10 which was up about 40 basis points and up
 11 about a 2 and a quarter percent year-to-date,
 12 and then below that you can see some of the
 13 other strategies benchmarks that we spoke
 14 about. The bond fund benchmark was about 30
 15 basis points in April, the inflation
 16 protection fund we would expect to have an
 17 additional 1.2 percent in April, and the
 18 Neuberger Socially Responsive strategy down
 19 about 30 basis points. Okay.

20 MR. AARONSON: And what's going to
 21 happen in May? Any questions?

22 Thank you very much. Does that
 23 conclude --

24 MR. FULVIO: That does, yes.

25 MR. AARONSON: That concludes the entire

1 public agenda?

2 MS. PELLISH: Yes.

3 MR. AARONSON: So we are now off the
4 public agenda for the pension fund.

5 MS. HINGORANI: Thank you, Mel. So if
6 everyone would turn to their monthly
7 performance review book. So we will go
8 through the March numbers and then talk about
9 April numbers, which you heard some of already
10 from Mike. But I wanted to start through a
11 couple of these economic charts to just to
12 give a sense for what's been going on.

13 It's been quite a bumpy road since the
14 beginning of the year. But what you will see
15 is that a lot of these charts and a lot of
16 what the data is showing is that the US
17 economy is actually okay. The equity markets,
18 both US and nonUS, actually look reasonably
19 priced, and yet you have the ten-year treasury
20 which is still below 3 percent, which shows
21 some caution out there. I think a lot of the
22 geopolitical events we have been hearing about
23 and reading about with Russia and the Ukraine
24 have certainly added to that. So if you turn
25 to page 3, this is the ISM Manufacturing

1 Index. And this is a gauge that we look at
2 that in terms of any number over 50 shows
3 expansion in the US economy. So right now we
4 have seen a tick up certainly since December
5 and another tick up in March, so it's now
6 53.7, so again a number showing expansion.

7 Then if you turn to page 10, this is
8 retail sales, and again we are seeing ticks up
9 here both in the last couple of months. We
10 had that bad weather in the East Coast that
11 hurt us, but now you are starting to see ticks
12 up in US retail sales. The next page shows US
13 auto sales.

14 MR. AARONSON: I just want to comment,
15 you can thank the Teachers' members to my left
16 for the pick-up in retail sales.

17 MS. HINGORANI: So page 11 is US auto
18 sales, and as you see here, a really nice tick
19 up to above 16 million units now annualized as
20 of March. You then turn to page 18, and this
21 is the VIX, the Volatility Index, and this is
22 a measure of kind of basically, you know,
23 nervousness and fear in the market, and right
24 now it's hovering quite low, at under 14,
25 which is suggesting that, you know, people

1 aren't as nervous about what's going on when
2 you look at this VIX index.

3 If you turn a couple of pages over, page
4 20, this is the ten-year treasury, and like I
5 mentioned earlier, it's been hovering still
6 below 3 percent, and folks are concerned rates
7 are going up, when are they going to go up.
8 Middle of this year, maybe the middle of next
9 year, now maybe end of next year. But right
10 now we are still below 3 percent, so there is
11 this caution at the same time.

12 So let's just look then at the US and
13 nonUS equity markets real quick on page 23.
14 And like I was mentioning earlier, you know,
15 the markets are reasonably priced, so if you
16 look at the far right set of numbers, so the
17 first chart is the Russell 3000 for the US
18 stock market. The second chart is EAFE
19 developed markets, and then the last chart
20 below are the emerging ones. So these are
21 price earnings ratios. How expensive and how
22 cheap are these markets based on earnings, and
23 so 13.3 times for the US, 11.7 times for EAFE,
24 and then 8.7 times for emerging markets, and
25 these are forward-looking numbers so one year

1 out. These are pretty reasonably priced
2 relative to ten-year historical averages, so
3 again you know, I think we are sitting in a
4 good spot end even despite what all the noise
5 is in the marketplace.

6 So then let's look at the numbers and
7 how they turned out. So if you go to page 27,
8 this is the month of March. So you see the
9 Russell 3000 up 53 basis points. The EAFE
10 markets down 64 basis points, emerging markets
11 having a nice comeback, up 3 percent. Core
12 plus 5 down a few more rows, down 15 basis
13 points. High yield up 23 basis points, TIPS
14 down nearly 50 basis points, and then converts
15 down 1.7 percent.

16 Now I will tell you what April was. So
17 April, Russell 3000 up 12 basis points, and
18 Mike went through a lot of these numbers
19 earlier. EAFE up 1 and a half percent.
20 Emerging markets up about 37 basis points.
21 Core plus 5 up over a percent. High yield up
22 60 basis points, TIPS up 1.44 percent, and
23 converts down about 14 basis points. So if
24 you turn to the next page, 28, this is where
25 the return came from in March.

1 So given all those numbers that we just
2 walked through in March, the fund actually was
3 up 70 basis points, so that's quite good for a
4 lot of this, you know, bouncing around in the
5 market. If you scroll over a couple of bars,
6 fiscal year-to-date then through March for the
7 total fund is up nearly 13 percent, which is a
8 great number. Now, if you add in April, which
9 is what we just went through, we estimate we
10 are up about 25 basis points. For the fiscal
11 year-to-date then through April, the fund is
12 up about 13 and a quarter percent.

13 MS. MARCH: So we can have a flat May
14 and June --

15 MS. HINGORANI: -- and be all right. We
16 will take that.

17 So the next slide then is how we are set
18 up in our asset allocation at the end of
19 March, and in the top left you see the fund,
20 total AUM is 55.8 billion. I can tell you as
21 of May 5th, which was Monday of this week, the
22 fund is now at 56.2 billion dollars. So a
23 nice up-tick even from the end of March. Now,
24 just to point out here also because we
25 mentioned this at the last board meeting that

1 you can see the green bar below, which is US
2 equities and then the blueish bars to the
3 right, which is fixed income. We had
4 mentioned to you that we had rebalanced and
5 sold down our US equity position and added it
6 to core plus 5, and you can see as I suggested
7 last month, we are well within our ranges. So
8 the next several pages are the monthly
9 numbers, performance numbers by manager, and
10 then we had the cash flows for private equity
11 and real estate, and if there aren't any
12 questions on that, we can go to our next item?
13 Good.

14 MR. AARONSON: Anybody?

15 MS. HINGORANI: Okay, great. Thank you.
16 So next up is the placement agent resolution,
17 and I am going to turn it over to Susan.

18 MS. VICKERS: Thank you. The placement
19 agent resolution is on 64 of your board book.
20 Again, good morning. The Comptroller's office
21 is pleased to offer a resolution that would
22 formalize our current practice that prohibits
23 the use of placement agents by investment
24 managers seeking to do business with the City
25 pension funds. This prohibition is based upon

1 careful consideration of the best way to
 2 maintain the integrity of our funds and
 3 eliminate even the appearance of outside
 4 influence or potential conflict of interest.
 5 Further, we think it's important to align our
 6 funds with the state-mandated regulations that
 7 prohibit placement agents. While it is true
 8 that some funds have chosen to use placement
 9 agents, in general placement agents are a drag
 10 on portfolios and their returns by siphoning
 11 off fees and the reputational risks that they
 12 sometimes pose. The elimination of placement
 13 agents could present a savings to managers,
 14 the systems, and ultimately to the City.

15 As evidenced by the Comptroller's recent
 16 MWBE Emerging Managers conference that was
 17 attended by over 700 of these types of firms,
 18 we take engagement with small and emerging
 19 firms very seriously. The new proposal
 20 outlined by the Comptroller announced a 1
 21 billion commitment to small firms across
 22 several different asset funds. Also, in order
 23 to better engage with small firms without the
 24 aid of outside marketers, we had designated
 25 and trained a staff person in each asset class

1 to serve as the liaison to the emerging
2 manager community.

3 We hope that you will join us in
4 supporting this resolution as we work to
5 enhance our commitment to maintain the highest
6 ethical standards while seeking out the best
7 and brightest investment managers for our
8 funds.

9 MR. AARONSON: Is there a second to this
10 resolution?

11 MS. MARCH: Second.

12 MR. AARONSON: Are there any questions?
13 Any discussion? Seeing no questions and no
14 discussion, are we ready for a vote? Okay.
15 All those in favor for the resolution say aye.

16 MS. GOLD: Aye.

17 MS. MALDONADO: Aye.

18 MS. MARCH: Aye.

19 MS. VICKERS: Aye.

20 MR. AARONSON: Wait a second.

21 MS. ROMAIN: There is a question. There
22 is a procedural question. This board has
23 always passed its resolutions at the board
24 meeting. We do give consensus at the
25 investment meeting, but at the board meeting

1 we pass a resolution so that's my question.

2 MR. AARONSON: Okay. So is that --

3 MS. BUDZIK: That's my understanding.

4 MS. MARCH: May I make a suggestion? I
5 think what we should do here is give
6 consensus, and I think we should have that
7 resolution on our board meeting if we wanted
8 to do it as a board policy on our monthly
9 meeting.

10 MS. VICKERS: Okay. Great.

11 MR. AARONSON: Do we have consensus that
12 we all support it? You guys have any
13 questions?

14 MS. MALDONADO: No, I approve. Thank
15 you.

16 MR. AARONSON: So would you please
17 prepare it as a resolution for the board
18 meeting?

19 MS. VICKERS: Absolutely. Thank you.

20 MS. HINGORANI: Thank you. So then next
21 up on our public agenda is the basket clause
22 and an update, and Susan has a good update.

23 MS. VICKERS: Good but very quick
24 update. So we have met with leaders in
25 Albany. Chairman of the Assembly Ways and

1 Means Committee, Chairman Denny Farrell, has
2 agreed to introduce the bill, the legislation
3 in the Assembly and is going to work with us
4 to get the best Senate sponsor. He suggested
5 DiFrancisco who is the chair of the Senate
6 Finance Committee who he does bills with.

7 So for some reason, we don't have a bill
8 number yet. It's working its way. It's not a
9 complicated draft. I think I can share with
10 you the language is basically increasing.
11 Change the numeral 2 to a 3 so our basket will
12 be 35 percent instead of the current 25
13 percent, so we have really good feedback from
14 Albany. As soon as we have a bill number, we
15 will circulate it. If anybody wishes to
16 provide a memo of support, that's always nice
17 and helpful. So you know, we would appreciate
18 that but it's going well.

19 MS. MARCH: We would love you to give us
20 the information because that is exactly what
21 we can move towards having our lobbyist and
22 our other hats support that.

23 MR. AARONSON: It's something that we
24 have asked for for a long time, and we haven't
25 gotten this close to getting this, but

1 hopefully now we will get this done.

2 MS. VICKERS: Fingers crossed but it's
3 going well so far. Thank you for your help.

4 MS. HINGORANI: Yes, thank you.

5 Okay. So that concludes the public
6 agenda for the Comptroller's office.

7 MR. AARONSON: Okay. Now we are ready
8 to go into the executive session for the
9 variable program.

10 MS. MARCH: I move pursuant to Public
11 Office Law, Section 105, to go into executive
12 session to discuss the purchase and sales of
13 securities.

14 MS. ROMAIN: Second.

15 MR. AARONSON: Motion made and seconded.
16 Any questions or comments? Seeing none, all
17 those in favor of going into executive session
18 at this time say aye. Aye.

19 MS. GOLD: Aye.

20 MS. MALDONADO: Aye.

21 MS. MARCH: Aye.

22 MS. VICKERS: Aye.

23 MS. ROMAIN: Aye.

24 MR. AARONSON: Anyone opposed? We are
25 now in executive session.

1 MR. AARONSON: Okay. We are now back in
2 regular session, public session. And Susan,
3 will you give us a summary of what occurred in
4 the executive session?

5 MS. STANG: Absolutely.

6 In the executive session of the variable
7 funds, an update on new funding of new
8 managers was presented. Also an update on the
9 change in the rebalancing program was
10 presented.

11 In the executive session of the pension
12 fund, updates on two managers -- not one and a
13 half -- were presented, and there was a
14 presentation by a private equity investment.
15 Consensus was reached, which will be announced
16 at the appropriate time.

17 MR. AARONSON: Okay. Is there any other
18 business before the board?

19 MS. ROMAIN: I do have a point if there
20 is no other business. Well, this is my last
21 investment meeting. I have been on the board
22 since February of 1998. It has been a
23 pleasure. I will be one of those people
24 looking forward to the good work that you do
25 every month as I collect my pension check.

1 Thank you very much for all that you do, and I
2 will see you around.

3 MS. REILLY: You will see us on the
4 Internet.

5 MS. ROMAIN: Oh, my life should be so
6 good. I doubt it but you never know. I may
7 come and be the public. Next month there will
8 be a new person sitting at the table.

9 MR. AARONSON: But you will be at the
10 next board meeting. Okay.

11 So any other business before the board?

12 Do I hear a motion to adjourn? I don't
13 hear to adjourn; I hear a motion to cry.

14 Now do I hear a motion to adjourn?

15 MS. MARCH: I make a motion to adjourn.

16 MS. ROMAIN: Second.

17 MR. AARONSON: All those in favor? Aye.

18 MS. GOLD: Aye.

19 MS. MALDONADO: Aye.

20 MS. MARCH: Aye.

21 MS. ROMAIN: Aye.

22 MS. VICKERS: Aye.

23 MR. AARONSON: We are now adjourned.

24 (Time noted: 11:34 a.m.)

25

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

2 STATE OF NEW YORK)

3 : ss.

4 COUNTY OF QUEENS)

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6 I, YAFFA KAPLAN, a Notary Public
7 within and for the State of New York, do
8 hereby certify that the foregoing record of
9 proceedings is a full and correct
10 transcript of the stenographic notes taken
11 by me therein.

12 IN WITNESS WHEREOF, I have hereunto
13 set my hand this 11th day of May, 2014.

14

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YAFFA KAPLAN