NEW YORK CITY TEACHERS RETIREMENT SYSTEM

INVESTMENT MEETING

held on Thursday, June 2, 2011

at

55 Water Street,

New York, New York

ATTENDEES:

MELVYN AARONSON, Chairperson, Trustee
LARRY SCHLOSS, Comptroller's Office, Trustee
SANDRA MARCH, Trustee
MONA ROMAIN, Trustee
RANJI NAGASWAMI, Office of Management and Budget
JANICE EMERY, Office of Management and Budget
LISETTE NIEVES, Comptroller's Office
THAD McTIGUE, Comptroller's Office
MARTIN GANTZ, Comptroller's Office
SEEMA HINGORANI, Comptroller's Office
MARC KATZ, Teachers' Retirement System
YVONNE NELSON, Comptroller's Office
JOEL GILLER, Teachers' Retirement System
SUSAN STANG, Teachers' Retirement System
ROBERT C. NORTH, JR., Actuary
MICHAEL KOENIG, Hamilton Lane
ROBIN PELLISH, Rocaton
CHRIS LYON, Rocaton

P R O C E E D I N G S

(9:49 a.m.)

MR. SERRANO: We will begin the June 2, 2011 investment meeting of the Teachers' Retirement Board by calling the roll.

Melvyn Aaronson?

MR. AARONSON: Here.

MR. SERRANO: Kathleen Grimm? Note that she is not present.

Sandra March?

MS. MARCH: Here.

MR. SERRANO: Ranji Nagaswami?

MS. NAGASWAMI: Here.

MR. SERRANO: Lisette Nieves?

MS. NIEVES: Here.

MR. SERRANO: Mona Romain?

MS. ROMAIN: Present.

MR. SERRANO: And Larry Schloss?

MR. SCHLOSS: Here.

MR. SERRANO: So we do have a quorum and at the May 26th meeting the board elected a chairperson.

Mr. Aaronson, so it's all yours.

MR. AARONSON: Thank you very much, Nelson.

We will start this meeting with the variable funds report.

Chris, are you going to do it?

MR. LYON: Good morning. The first item that I am going to start with this morning are the green bound quarterly reports for the variable funds or passport funds, as they are also known. And this is for the time period ending March 31st. We have previously reviewed some summary level March 31st information at a prior meeting, so I am just going to cover a few highlights and selected observations from the reports on each of the variable investment options.

As a reminder, behind tab 1 on the first page there is information about capital markets performance. And, generally speaking particularly for equity markets, the first quarter was a pretty strong-performing quarter with returns noticeably positive in the U.S., in particular up about 6.4 percent in the broad U.S. equity market and non-U.S. equity markets were up in the 3 or 4 percent or so range.

So with that as a backdrop, if you turn

ahead to page 3 behind, tab 2 you can see some summary comments regarding the variable funds and during the first quarter the first section previews, the Diversified Equity Fund formerly known as variable A. And during the first quarter that fund returned 5.6 percent. That's net of all fees and that's behind the broad U.S. equity market, which returned 6.38. But it was ahead of the hybrid benchmark which caused it to reflect the actual fund's allocation strategy by a modest amount, so right in between the two benchmarks essentially. Over the one-year period you can see the performance was 15.7 percent after all fees. That was also behind the broad U.S. equity market, but a little less behind the hybrid benchmark. And then there are some comments about longer term performance.

The interesting thing we would like to focus on in particular, given the objective that we have for the Diversified Equity Fund, is the volatility profile of the fund and what that's been over the past five years. And we look at this on a rolling five-year basis, so we have repeatedly looked at this over time.

And what's important to note is that the volatility of this investment option has been less over this particular five-year period as over many in the past than the broad U.S. equity market. And that is an objective that may not always be realized, but that is intentional. It's designed.

There was also some comments in here regarding two of the strategies that make this investment option notably different than the broad U.S. equity market which are the inclusion of defensive strategies composite, that includes tactical asset allocations strategies, convertible bonds and low-volatility equity strategies. And what you can see is that that composite returned 3.1 percent for the first quarter. That's less than the return of the total fund and in an upmarket, particularly strong upmarket like we had in the first quarter, we would expect something this defensive in nature to typically trail.

And the other thing that's diversifying strategy is the inclusion of non-U.S. equities and the international equity composite also returned in the around the 3 percent range for the quarter. And we have talked about many of the events in the international markets and how they impacted U.S. investors investing internationally such as the impact of the earthquake in Japan, et cetera and it was although 3 percent return for the quarter, looks like it was a good return, it was much more volatile ride than that.

And, lastly, at the bottom there is a comment regarding asset allocation, which is to say that there are targets set for each of the sub-composites within the Diversified Equity Fund. And the actual allocations were reasonably close to target due to ongoing rebalancing, with the biggest deviation at quarter ending a percent and a half off of target for one of the composites. Total assets are cited down at the bottom as $10.4 billion in the fund as of March 31st.

There is some other more detailed highlights behind this section and a repeated flash report that was previously distributed and reviewed at a prior meeting, so I will just stop and see if there are questions about the Diversified Equity Fund. Otherwise, those are the major highlights from our perspective.

Okay, then if we flip ahead behind tab 3 to page 16, you can see a profile of the stable value fund formerly known as variable B. And as has been communicated to the participants, there are some changes that are in the works for this fund. The way it's currently invested is consistent with its overall guidelines and objectives and the assets are split between short term and other securities managed by BNY Mellon Stable Value as well as a portfolio of fixed income instruments managed by NISA. And you can see the allocations there with total fund assets being approximately $416 million at the end of the first quarter.

Any questions?

Okay, and then the other variable investment options within the passport funds are profiled behind tab 4, and on page 18 there are comments about each.

The first is the International Equity Fund with assets at quarter end of around $75 million. And this fund returned 3.2 percent versus 3.45 percent for its benchmark for the quarter and 10.7 percent for the trailing one-year period which was reasonably close, but 23 basis points behind its benchmark. And, again, all these results are net of fees. The fund has outpaced its benchmark since its inception several years ago on an annualized basis with 3.4 percent positive return, while its benchmark has had a negative 2.1 percent return. So very strong relative performance since inception.

The next fund is the Inflation Protection Fund. This fund had a little over $19 million as of quarter end and had performance of approximately 3.2 percent net of fees versus 2.4 percent and 2.7 percent for relevant benchmarks. And over the one-year period returned 13.6 percent, which was not quite double but significantly outpaced the 6.84 percent TIPS benchmark and CPI, plus 5 percent benchmark of 6 percent. And, again, we are hoping that this fund over a full market cycle outpaces inflation but because it invests in many more strategies than just TIPS, we don't expect it to closely track the

TIPS benchmark over short time periods. Since inception several years ago, on an annualized basis the funds returned 7.4 percent net of fees and the TIPS benchmark that we are trying to outpace over market cycle, although no guarantee of that, it returned 3.5 percent. So, again, very significant out-performance since inception.

And, lastly, the Socially Responsible Equity Fund had assets of almost $20 million at quarter end. For the quarter the fund returned 6.8 versus a benchmark return of 5.9. Very strong absolute and relative performance. For the one-year period almost 22 percent return versus 15.7 for the benchmark, so very strong one-year absolute and relative performance. And since the fund's inception several years ago, on an annualized basis it's returned about 8.4 percent with rounding net of fees versus 3.6 percent for the benchmark.

So, once again, all three of the investment options that we have added several years ago have significantly outperformed the benchmarks since inception. So there is some additional detail profiling each of these funds in terms of some of the key positioning of the funds, et cetera behind this tab, but there haven't been any significant changes in strategy with any of these funds since our last detailed review.

Any questions?

MR. AARONSON: Seeing none, you want to go ahead.

MR. LYON: That's the quarterly report.

So then the next thing somewhat more briefly is the April 30th information that was distributed in advance of the meeting, and you should have handouts as well. And the first April 31st information is for the Diversified Equity Fund. You can see the assets are 10.7 billion on the first page and no significant deviations from target in terms of the asset allocation that are dramatically different than what I just reported on on the quarterly report.

If you flip ahead several pages to page 3, you can see the total performance for April. April was a solid month for the markets in general and the returns were 3.4 percent for this investment option, kind of the opposite impact of what I talked about in the first quarter. First of all, we outperformed the broad Russell 3000. We also very slightly outperformed the hybrid benchmark. And this time we were aided by the performance of international equities. And so you can see the international composite was up 5-1/2 percent roughly versus 3.4 for the total funds, so that allocation helped the performance in addition to its role as a diversifier. So that's the performance for the month. That brings the year-to-date result through the end of April up over 9 percent on a net-of-fee basis.

Then if you turn to the second handout, we have variable C, D and E. These are the International Equity, Inflation Protection and Socially Responsive Equity options respectively. And you can see the asset levels 80 million for International, 20.6 million for Inflation Protection, and 21 million for the Socially Responsive Equity Fund and you can also see the performance information.

So the International Equity Fund was up

5-1/2 percent for the month, a little bit behind its benchmark which was up around 6.1. And year-to-date results almost at 9 percent return for the International Equity option, so a little bit behind its benchmark which returned 9.7. The Inflation Protection Fund continued to do well versus its benchmarks. Again, we are not expecting it to closely track them in short time periods, but up 2.55 percent versus 2.11 for the one-year, ten-year TIPS benchmark and the year-to-date return, therefore, is now almost 5.8 percent versus 4.5 for the benchmark. So April was helpful in absolute and relative terms. And the same was true with respect to April's absolute and relative returns with the Socially Responsive Equity option, up almost 3.2 percent net of fees versus a little under 3 percent for the benchmark. That brings year-to-date returns to 10.2 percent versus 9 percent for the benchmark.

And all that is great, but I do have to tell you May wasn't a great month for equities and -- but fortunately the way May ended up, it wasn't as bad as it could have been at certain points along the way.

So if you look at the last handout I have for you, the May 31st performance benchmark report, the hybrid benchmark for the variable A or Diversified Equity Fund, because of equities in the U.S. and even more so internationally being down the benchmark is down about 1.1 5 percent for the month of May. And the underlying funds that are primary holdings within the Inflation Protection and Socially Responsible Equity Fund were each down modestly less than 1 percent each during May. And so we expect the actual returns when we have them in about a month to be something in line with those.

Any questions?

That's everything that we have for the variable funds public agenda.

MR. AARONSON: Okay. So we have concluded the public agenda on the variable funds and we are now going to turn to the public agenda on the pension fund.

MR. SCHLOSS: Thanks, Mel.

We are going to bounce around a little bit because we have quarterly reports and then we are going to go through the April numbers, so I think I would like to start with in the monthly package. If anybody needs it in color, I have it in color. Let me see if I can set the economic backdrop before we get into the quarterly and then, in fact, the monthly.

So I think the first chart captures what's going on best, which is the GDP. It's not going up any more so we are having a little pause in our rebound. We are going to have a lot of press, not sure how troubled we should be. But I think it's clear to say the economy is slowing down a little bit. Still going forward, still growing, but it's definitely not growing at a pace that's going to help the unemployed.

So if you look at the next page, capacity utilization, you can see it leveling off. Manufacturing index going down a little bit. Again, these are the March/April numbers. Weekly unemployment claims spiked, but more troubling was last week I think they announced that few new jobs were offered to people and that's a problem. You can see the unemployment rate kicked back up to 9 on page 6.

On page 7 the consumer sort of bouncing around, I guess is the best way to say it. The consumer is hit by rising fuel prices and rising food prices and then the slowing down affects people as well, so their sentiment is a little less robust. As we mentioned in the past, architectural buildings is a precursor of construction. This is not good. Last month we talked about it's flat now, it's down. That's not good. New home sales have plateaued a little bit. More distressful continues to be. P.

Age 10 basically very little new housing starts because continued foreclosure. Price of homes are going down. We are not going to get the economy growing until this starts to go up or decreased unemployment. Retail sales are about the same. Auto sales are plateauing a little bit. Leading economic indicators are down. Again, not good. CPI continues to go up a little bit for the reasons I mentioned previously and that gets us to the markets. The markets are actually at a very, very precarious place I would tell you. You can see, for instance, in the 2011 numbers, first people are fleeing to the euro to get away from the dollar. Then they decided the euro wasn't good either, so they fled the euro. Now they are about to go back to the euro. I think the answer is nobody likes either currency, which is why gold is up. You can see the dollar again got a little bit stronger because as you read about Greece and its problems people say, I don't really want to be in the euro.

If you jump to page 19 you can see the stock market other than yesterday has sort of shrugged it all off. Bounces around a little, but the volatility in the stock market is not as great as you would think for all the risky things that are around. More troubling, however, or leading indicator of trouble is the drop in the yield curve. And, again, the long rates are going down a little bit because people think perhaps the economy is cooling off, therefore, less borrowing. The fed is keeping rates fixed insured and very, very low.

The bigger problem from my perspective is on page 21, which is the ten-year rate. Ten-year rate broke 3 percent yesterday. Again, if we sat back here six months ago it was heading to 4, now it's below 3. This, I would tell you, is my definition of the worry factor. They don't know where to put their money. Let's just put it in ten-year treasuries and hope that works out. The bottom-market spreads, they continue to narrow. As you know, we sold high-yield bonds, continue to sell high-yield bonds but we just think high yield is overdone.

Page 23 you can see S & P 500. Earnings are going up. The multiple is staying about flat. 15 ER on a multiple basis, not that expensive.

Page 24, these are the Russell 3000 EAFE and emerging markets. Again, not overly expensive overall. The same thing when you go large cap, mid-cap, small cap on page 25. Small cap, however, is starting to get expensive. Witness the potential tech bubble that's brewing. You can see the stock markets -- and this will come through the numbers that

Martin and I are going to go through a little later. Basically March was fine, April was okay, May was less okay, and yesterday was not good. M&A activities continues to be robust.

Over to Teachers' Retirement System. If I get you through April and again we will back up through the first quarter, we are at an all time high at about $43.7 billion. But if you push that forward to the end of last month, May, I think we were about flat in May so we are still up. So, again, you can see for the year -- we are at the peak for the year, so all that is good.

And I will stop right there because I need to backfill a little bit. So if you put this aside for a little while, back to where we are in April because it's time to go through your first quarter report which you all have. Those are funds for the quarter.

So, Martin, why don't I hand it over to you.

MR. GANTZ: Sure.

As Chris mentioned just a few moments ago, the March quarter saw pretty good returns but also saw increased volatility. That was the quarter that saw a lot of unrest in the Middle East and also saw the earthquake in Japan, which created great uncertainty in the markets overall. However, by the end of the quarter the markets shrugged off much of that and ended up in positive -- strong positive territories. The Russell 3000 was up 6.4 percent and that brings it up to over 32 percent for the fiscal year to date for the months. Non-U.S. equities were not quite as high, but they were still up. EAFE was up about 3.4 percent and emerging markets about 2.1. In U.S. equities small cap did better than large percent, about 8 percent versus 6, and growth in value were roughly very similar. As far as the fixed income markets, while Larry just mentioned that the ten-year is down now to 3 percent, during the March quarter the ten-year was on the rise and because of that the government sector had declined. The good news is the other sectors, the spread sectors, mortgages and credit, did well. So the overall benchmark was about one-half of 1 percent. High yield, this was still very hot at the time. Investors continued to search for yield and that was up 3-1/2 to 4 percent. Overall, it was a good quarter for the fund.

And if you turn to page 9, you will see the quarterly result on the left at 4.74 percent and that was 23 basis points ahead. And you will see the fiscal year to date 12-month numbers also strong on an absolute basis. The three-year number while it's only 4.03 includes the very difficult market in 2008/early 2009, so we are now up to 4 percent for that. I would like to hit the highlights. As Larry mentioned, last month we did a lot of the March numbers so we will hit the highlights unless you have other questions.

So turn to page 15. We want to show you where you rank versus other public funds and we define that as funds greater than $10 billion. If you look at the left for the quarter, the 474 puts you in the top quartile, very safely in the top quartile, in the 17 percentile. And if you look it at the one-year and three-year numbers, you are also in the top quartile. That's certainly very good news. You are in good company.

The next page shows on the right side of the page the years ending March and for the last two years also top quartile. Lower numbers as you go out further, out '09, '08 and '07. But the last couple of years have been very good performance-wise for the fund and you are definitely in good company top quartile.

I will turn it over now to Seema who has some comments on the equity portfolio.

MS. HINGORANI: Thanks, Martin.

If you turn to page 19, this just shows you the domestic equities and higher allocated across the asset classes and I will just point you to a couple of things.

So you can see the fourth column in the index return, you can see the indexes there. Martin referred to this earlier, small cap versus mid-cap versus large cap in the returns. And as you can see, large caps which is pretty much a good proxy will be the Russell 1000 active. You can also to look at the Russell 3000 Index Fund, so 6.38 percent for the Russell 3000, 6.24 for the Russell 1000 active. That compares with small cap of close to 8 percent and mid-cap similar number, 7.63 percent for the quarter. If you go over a couple of columns, the difference here. So the out-performance or underperformance, really it was in the Russell 1000 active managers. Teachers' developing managers that underperformed for the quarter. Whereas in your emerging manager program and small cap active, they outperformed quite nicely for the quarter.

So if you turn to page 24 then, just to sum up domestic equity returns versus Russell 3000, you can see for the quarter there that the teachers' managers have slightly outperformed the Russell 3000 for the quarter which is a good result.

And then if you look at page 25, this goes through the international equity asset allocation and I will just point out that the blue there, the 17.2 percent of your total international equities, is emerging markets. As you might remember, we added emerging markets to the portfolio back in February/March of this year so we don't yet have a full quarter performance, but as Martin mentioned before the quarter, emerging markets were up in the quarter about 2 percent. Teachers actually did slightly better than that just given the timing of when you bought into the index.

So if you turn to page 26, this shows your EAFE returns versus the MSCI EAFE Index and for the quarter the managers are roughly in line. A bit behind the benchmark, but roughly in line.

That's it for equities, so turn it over to Larry or Martin.

MR. GANTZ: Some more fixed income.

I want to start on page 27 with REITS, one last equity page. This is a program that's 4 percent of the total fund and had a strong quarter at 6.48. It was 18 basis points behind the benchmark. But as you look at the fiscal year to date and one-year number the columns next to it were very strong on an absolute basis, 30 percent, 30-1/2 percent for the fiscal year to date. Note 26 percent for the year. All of the numbers going back to inception are well ahead of the benchmark and since inception were over 150 basis point ahead returning 13.61. So the program has done its job and the managers have done very well generally.

Turn to page 30, you will see that about 29 percent of the fund is fixed income. The large green slice is your investment grade program. And if you turn the page, we further break that down into the three sectors. And if you look at the Over/Underweight column, you will see we were underweight the government sector, overweight mortgages and to a small extent credit in that quarter. That added value because treasuries on the long end rose. In addition, if you look at the Difference column, each of the sectors outperformed. So ultimately the program had good results in a fairly low return environment.

On page 32 you see the returns per quarter. It was 0.74, but that was 27 basis points ahead. And for the fiscal year to date a modest 2.71, but well ahead of the benchmark. And for the year 6.95 over 100 basis points ahead and for the longer term periods the returns are inconsistently in the mid-6 percent range and the volatilities in the low 4s.

High yield, if you turn to page 34 we call it enhanced yield. I mentioned it was still a hot area of the market. The managers virtually matched the benchmark returning 3.83 and for the year. The returns were very strong into the 13 percent range. And, again, the longer term numbers are also strongly positive for high yield and well ahead of the benchmark.

MS. NAGASWAMI: Martin, are our TIPS indexed?

MR. GANTZ: If you turn back to page 33, TIPS we have a portion of the portfolio.

MS. NAGASWAMI: We do not index the whole thing?

MR. GANTZ: Right now I think it's 25 or 30 percent that's indexed.

MS. NAGASWAMI: Is that something we can think about at some point?

MR. SCHLOSS: Sure.

MS. NAGASWAMI: I don't know if that worked there or not.

MR. SCHLOSS: That's generally worked.

MR. GANTZ: The last couple of months

has seen some under-performance, but the record for the first few years has generally been good. We can see that when we go through the other book, that has the numbers year by year. And we can certainly give you more information as to how the managers are doing but generally speaking, right now, going onto inception it's a modest out-performance. The under-performance effectively had been for the last six months, but even that has been fairly modest. But, yes, we can certainly talk about that.

Convertible bond returns on page 35 are strong on an absolute basis, but behind the overall benchmark.

And the strongest returns on fixed income are on page 36 and we will talk about this a little later in public session as well. The returns have been very strong, over a 1,000 basis points ahead fiscal year to date and well above that for other time periods, and we will be talking more about that later in the public session.

Last we have ETI and Cathy Martino has an update on ETIs.

MS. MARTINO: Your economically targeted investment portfolio is shown net of fees and it outperformed both its custom benchmark and the Barclays Capital U.S. Aggregate for all periods. Your collateral benefits report is in your package on pages 53 to 58 and it shows the distribution of investments by borough. There were minimal changes over the last quarter.

So unless you have any questions, I will stop here.

MS. NELSON: Hi, good morning.

I am going to review the highlights for the Teachers' real estate portfolio for the fourth quarter 2010. It begins on page 62 of your large board book and very pleased to report a very strong fourth quarter of 8.4 percent, very strong fourth quarter at 8.4 percent for the Teachers' portfolio and that's on an after-fee basis. Very strong compared to the real estate benchmark which we adopted, which is the ODCE which posted a 4.7 percent return for the fourth quarter. So the fourth quarter appeared to have kept a very strong year for real estate in terms of recovery.

It's still slow and gradual at this point, but certainly the Teachers' portfolio is performing well.

The market value as of fourth quarter 2010 is $538 million. We still have about $446 million outstanding. That's committed, but not funded. All together that's $984 million, approaching a billion dollars at this point.

So as we talk about the real estate recovery for this year -- and particularly the fourth quarter which is a period of time where the managers work very diligently to work post a good result for the year. They shine the apples up. Whatever deals they have, they can possibly close by yearend, they will do so. Similarly if they can post a realization, they will do that as well.

As we continue the discussion, we noticed an uptick in capital calls so they were very busy for the fourth quarter. In terms of acquisitions, the acquisitions that these managers made during the year was kind of like bifurcated because they were searching for high quality, definitely were pursuing core properties and major markets. So much so that the yields fell and prices were not -- closely approaching peak prices, but not exactly. The other alternative were deals where there was something slightly wrong with it. It wasn't in a Gateway city. What I mean by "Gateway city," at least for this year it appears to be a New York, D.C. and San Francisco. So if you were a manager and you were looking for that high yield, that meant that you had to kind of roll up your sleeves and buy a property that perhaps you had to use, buy a property that perhaps was not in that particular market that I mentioned.

So in terms of the total returns for the portfolio, we talked about the fact that Teachers delivered 8.4 percent for the quarter which was very, very strong. As we look to what the performance was for 2010, you will see that the Teachers' portfolio again on after-fee basis delivered a return of 23.4 percent for calendar year 2010 and outperformed the ODCE benchmark by 810 basis points. The ODCE was 15.3 percent for the calendar year 2010 and actually that itself was about the second highest return the ODCE index had experience in the past 30 years, so the comeback was very strong and we hope to continue to see more.

As we kind of look into the three-year period, that actually kind of covers the peak to trough of this downturn we had from '08 to the end of 2010. So, as you can see, that's the rough patch that we experienced in our portfolio. We were under the benchmark for the three-year period by 508 basis points. The only such period. The key period, however, for the program by policy is the five-year period. And you can see for the five-year period that the Teachers' portfolio is still outperforming its benchmark and also since inception, so again largely positive for the near term and extended periods.

MS. NAGASWAMI: Yvonne, how do marks work? Will people get appraisals at June 30th or they do them at year-end so that this is the actual best representation?

MS. NELSON: This is a very, very good representation of fourth quarter and that's because the open-end funds have different valuation policies. But as frequently as a quarter they are going out to for third-party marks or at least once a year, and that's on the core side. Now, the noncore side, what happens there is that the managers typically will do internal valuations, but at the end of every calendar year is when the third-party auditor comes in.

MS. NAGASWAMI: So it's the calendar year?

MS. NELSON: Exactly. When they come and prepare the financial statements, one of the lines they have to sign off on and check that box is how they are valuing the real estate. So I guess at a minimum that is the kind of third-party look even on the noncore side. So, yes, I would agree with you that fourth quarter is very, very important.

Continuing onto page 64, here we just kind of lay out stuff that you know, we already know relative to how the program is being put together, relative to scale and size. And I know this is a little scale in that it's 12/31 but at 12/31 looks like the Teacher's Retirement System was at $40 million, so I am sure you don't mind me saying that. The real estate allocation is 5 percent, so the program was potentially a $2 billion program. In terms of how we diversify that portfolio by investment style, we have adopted the fact that within our core strategies our portfolio could range between 40 and 60 percent. Similarly with the noncore portion of the portfolio, that too can range between 40 and 60 percent. So at a 40 percent level, by policy, the core would be $806 million and the noncore portion could potentially be about $1.2 billion. In terms of where we are actually, I would direct you to the third box that will show you that actually based on market value and the commitments that we have outstanding our portfolio is 30.2 percent core and 58 percent noncore, so well within those bounds that we just discussed.

In terms of dollars in the ground, we are 1.3 percent funded. We have 2.4 percent committed at this point. And a little table at the bottom kind of talks about the cash flows going in and out between the system and the managers. We have about 25 managers at this point. We have about 33 investments of global real estate portfolio. And for the quarter there were about 21 capital calls addressed to the tune of about $50 million, and also we received about 10 percent of that back in distributions from 12 managers. Also we committed -- as you know, in the fourth quarter Teachers committed $40 million to the H2 Special Opportunity Fund. We have closed on that fund and happy to report they are at work investing your money. Similarly, we talked about the attributes of core investing and also during that quarter Teachers committed an additional $50 million to JPMorgan Strategic Property Fund. Also happy to report that that manager has drawn down at least two-thirds of that money, so your money is at work.

Finally, on page 65 it's just a report card on compliance. And as we --

MS. NAGASWAMI: Are we still in a couple of queues?

MS. NELSON: One. We are in one queue for UBS Trumbull and we are monitoring that.

We are monitoring that. They give us estimates but I don't even want to say it because they may be right, they may be wrong.

MR. SCHLOSS: We are also revisiting whether we should be in the queue or not. We are in the queue, we committed to this six months ago and the markets moved a lot in six months. So being in the queue we might decide when we are reviewing with Townsend, To hell with the whole thing, market opportunity was then; there is no need to buy and we missed it. I don't want to say we missed it. The queue was too long. So if you can't take our money when we want to give you our money, maybe we will just take it back. And we are talking to Townsend about that.

MS. NELSON: Certainly.

So in terms of performance, we talked about the fact that over the five-year period that the Teachers' portfolio is performing in excess of its benchmark. Already in terms of the portfolio mix that we are striving for relative to core and noncore we are in compliance in that area, 42 percent for core and 58 percent.

MS. ROMAIN: 54.

MS. NELSON: I think if you add that together with the emerging --

MS. ROMAIN: I needed there to be an explanation.

MS. NELSON: Sorry about that.

So emerging managers is considered a noncore strategy. Moving onto the allocation at 5 percent, we are funded at 1.3 and on a committed basis we are at 2.4 percent of total plan assets. In terms of diversification, property type and geography we are also within limits. There is a little bit of stress on LTV debt. Policy right now is 50 percent. We are now at 54 percent and, actually, it was higher when things were really, really bad.

MS. NAGASWAMI: And you counting that on a funded or committed basis, the 54?

MS. NELSON: It's on a funded basis.

Manager exposure we are within the ranges. And just wanted to just add a little color on the manager exposure. If I kind of look at your top five managers which actually comprises about 65 percent of that 538 million market value and I ran my fingers down to take a look at how they performed, you have the five managers and we are invested in about nine products between them and eight of them were in excess of the ODCE. So for the calendar year 2010, there were eight of these funds that performed in excess of 15.3 and the one that didn't was about 13. So if you kind of try to identify the trends, some of the reasons why we kind of outperformed, you know you got to kind of look at the relationships that moved the needle. So I just wanted to kind of share with you that your top five managers are doing exactly what they are supposed to do.

And the last page just shows you how your portfolio is diversified by geography and property type and we are within compliance in those areas well.

Does anyone have any questions?

MS. NAGASWAMI: I do. But do you think I should save it for Townsend when they come in?

MR. SCHLOSS: Yes.

MS. NELSON: Sure.

MR. AARONSON: Thank you very much.

MR. MILLER: With that, I am going to go into private equity which is page 68 in the book. Spend a couple of minutes just talking about the market and with that just go right into the portfolio, how the returns are because, again, we are talking about the fourth quarter. As we are in the first couple of days of June, you have heard a little bit more recent information.

So if we talk a little bit about 2010, so there was continued resurgence in global deal activity in 2010. Just to give people a little bit of perspective, there were a little over 2,100 deals that were announced in 2010, an aggregate value of about 225 billion. To put that into perspective, that was an increase in numbers by about 38 percent. But, more importantly, it was an increase of about 89 percent year over yearend value. There was an increase in bigger deals that happened. The largest deal in 2010 was a deal that purchased Delmonte between KKR Vestar and Centerview. It was a deal that had a total valuation in excess of $5 billion. If you look at the money that's sitting on the sidelines today, there is in excess of 480 billion of dry powder or unfunded commitments that private equity has to deploy.

With regards to fundraising, the summary on fundraising is it's taking longer. Today to raise a fund in 2010 was roughly 20 months. If you went back to 2007/2008, it was closer to 10 months. It's taking twice as long to raise funds. In a majority of the money that was raised, roughly 90 percent of that money raised was in the middle market space. But the good news is is that high-quality funds, funds that people are looking to commit to, are being raised. And, frankly, and this is probably positive a lot of the smaller funds raised in the bubble years are just not going to come back to market.

And with that, I will switch from the market. Again, very brief comment into the portfolio which is page 83 in the book. If we talk a little about how the portfolio performed from a target standpoint, as people are aware the target for Teachers is 4 percent for private equity. If we look at it from a bandstand point of 4 to 5 percent band as of

12/31, we are 4.6 percent. If we look at the overall returns for the year, the year returns were positive. We had an increased year over year of roughly 144 basis points which is a good trajectory, but I would focus on a couple of numbers which is our contributed and distributed numbers. If we look at 2010, we received less money than we put in the ground. So call it 120 million contributed, $78 million distributed. If we give you a little preview of the first quarter, the numbers are reversed. There is more money coming back that's going into the ground, so that again is a good trajectory. The portfolio is still relatively immature. When looking at the portfolio, it's roughly 60 percent funded. So what that means today is that 40 percent of the money is still to go into the ground. That's the dry powder of the unfunded. So as a result of that there is still a lot of dollars to be put to work and as a result the relative age of the underlying portfolio companies is relatively young. The overall portfolio, the balance in the portfolio today, the portfolio is roughly 70 percent buyout, 11 percent venture, 8 percent special situations. That is very much in line with the targets that were discussed in the February annual allocation.

From a commitment standpoint, the portfolio from a geographic standpoint, it's very U.S. centric. It's 95 plus percent in North America or U.S. With regards to the overall annual returns the portfolio had a very positive return, 16.6 percent annual returns over the entire year. Again looking at the overall since inception, IRR a little over 8 percent, 8.13 percent. So the question comes, How did we do versus the benchmarks? If you look at the overall benchmarks for the fund, the fund has outperformed its benchmark, which is the pooled IRR for venture economics which has returned since inception 4.3 percent. However, when comparing it to the Russell 3000 plus 500 basis points for illiquidity, it has underperformed that benchmark by about 230 basis points. If we look at it versus not as a policy benchmark but another benchmark which is out there, which is the venture economics top-quartile benchmark which we think is a good benchmark to strive for, the portfolio has unperformed by 450 audio basis points. For 2010 there was one new commitment that was made, which is Trident a $35 million commitment. Exclusive of that it was a relatively uneventful year with regards to committing to new funds.

If we go towards the end -- it's actually page 291 in the book, so a little bit jumping around -- I think what's interesting to talk about is where the portfolio is and where the successes have been in the portfolio. The portfolio continues to perform well on the buyout front. Large cap buyout has been a successful area of investment. That has generated IRRs in excess of 14 percent. If we look on the secondary front, another subset that has generated IRRs in excess of 13 percent. And if we look at the overall portfolios, so where was the system at the end of 12/31, committed capital was approximately 3.4 billion. Paid in capital was approximately 2.4 billion or the 60 percent funded. The capital distributed was roughly 950 million and the overall market value was a 1 billion 9.

So the portfolio continues to be moving in the right trajectory. Clearly performance has increased and we will look at the first quarter, second quarter and subsequent quarters come out that the portfolio would continue to grow.

With that, I would leave it open if there are any questions.

MS. NAGASWAMI: So is your sense that the marks are really sort of fundamentally based or is there some valuation expansion that is being priced here?

MR. MILLER: I think it's a combination of things.

When you look at valuation, going back to your question you had asked before on the real estate side, so 12/31 historically have always been the best valuations because that's when there has been an annual audit. That being said, with the change in the accounting policies and the mark to market, clearly the quarterly valuations are significantly better than they used to be because historically, effectively, everything was kept at cost so you never saw any movement. With significant increases in the public markets, which is in many cases where we see the comps on, the private equity managers are coming to price out their companies. The trajectory of the public markets, the increase in comps, and the wind at our back has really pushed up the overall valuation. So we do believe these are good valuations, but clearly they are increasing on the backside of really two factors. So one is the increase in overall multiples on the public sector as well as the opportunity for many managers on the debt side to be able to put in what today are more attractive capital structures than over the past two years have been available.

MR. SCHLOSS: Any more questions for Barry?

Thanks, Barry.

MR. MILLER: Thank you.

MR. SCHLOSS: So that's the end of the quarter.

Now we go back to April which is in the color handout, the monthly report. Pick it back up on page 29. Since this is such a nice chart, I thought we would start there. So we are at 43.7 billion so we like this chart. It's a very good chart.

If you go to page 30, you can see how the assets are allocated. At the end of April we are long over allocated equities, under allocated fixed income. Most under allocated high yield. We continue to work on the high yield and we will get into how this under allocation fits into the longer term asset allocation so we are kind of moving into where that is going, but we will talk about that more in a little bit.

If you jump to page 32, you can see where we made our money. The month of April was good. We made money everywhere. That's a good month. We made about 3 percent for the month. If you look at the fiscal year to date which only has two months left as of April, we are up 25 percent. Tough to beat that. And again we are up 4 percent for the three-year period, which includes the collapse in '08. So it doesn't get much better than this. The month of May was about flat with April, so just have 30 days left to go. And the first day yesterday was abysmal, so we will just kind of see how much of this 25 percent we can keep.

MS. MARCH: 29 more days?

MR. SCHLOSS: 29 more days. I got a countdown going in my office. You are all welcome to see the chart, but I would hope to keep up 25 percent for the year, for the fiscal year, which would be great. I think Chris walked through the markets and again it was up. All the managers fundamentally performed similarly to what we just went through in the bigger basis than the quarterly reports, so I won't really walk you through it unless anybody has any questions on the month. It was a very good month.

The markets are getting very choppy. QE2 is going to end at the end of this month, lots of risks floating around, ten-year bonds through QE3, so could be a choppy summer. But let's see if we could first finish the fiscal year and book the gains. So with that, that sort of ends the performance review for the quarter as well as the month.

Unless anybody has any specific

questions on the month we can get to item 3 which is the asset allocation, which is hopefully our final trip through this. Once every five-year asset allocation because we are not going to do it once every five years, but it's the first time it's been done in five years so let me hand it over to Robin to see if we can get to its natural conclusion.

MS. PELLISH: So there are a few slides that start on page 94 of your big book. And Larry mentioned this is really an update from the May 12th meeting discussion. And at that meeting the board reviewed a number of candidate portfolios and provided some feedback on the proposed asset allocation policies. And working with that feedback as well as collaborating further with your old asset management, we are bringing you the proposed final recommendations. And let me mention a few items about this recommended target next that you see on page 95.

First, this continues the long-term trend that we have seen over many years of trying to further diversify the portfolio in a very evolutionary way by reducing equity risk.

And so what you will see is that versus the current target, the recommended policy has a lower expected volatility. So, again, not a dramatic change, but modest change. So our expected risk for the current long-term target using current market assumptions is about 12 percent. That's moving modestly down to 11.2 percent. We see greater utilization of the basket, so right now we have a little under 20 percent usage of the basket clause. If we were fully invested in the target allocations to private equity and real estate, that moves up slightly to 23 percent. You see increased allocations to some diversifying asset classes such as Opportunistic Fixed Income and convertibles as well as emerging market equities, and a new asset class is funded in this recommended target emerging market debt. The increased allocations to those asset classes that I just mentioned are funded through reductions to both U.S. and non-U.S. developed market equities.

And let me take this moment to say that based on the request from the board, we are planning in the fall to come back with an education session on the new asset class emerging market debt as well as a discussion of where the uninvested cash would sit while it was waiting for commitment. So, for example, in private equity and private real estate as well as Opportunistic Fixed Income, money will be drawn down and invested over time. And there is a current policy, and we want to review that over the summer and come back to you with a discussion of that in the fall again with the Bureau of Asset Management.

Let me point out also that asset classes that we had talked about in various discussions on the subject of asset allocation such as absolute return and commodities are not included in the current target. Again, that's based on the feedback that we got from various discussions on this topic.

So let me call your attention to page 3. On page 3 you see the current long-term target, the recommended target and the difference between those two. And the most significant change of course is the reduction in equity from the current target of 70 percent down to 63 percent and that is really most prominently seen in the reduction in the U.S. equity and international developed market targets, each of which are reduced by 7 percent. Emerging market is raised by 5 percent from the current 3 percent target to 8 percent. In addition, you see a minor increase in private real estate going from the combined core and noncore with the current target of 5 to 6 percent. So, generally, a fairly significant reduction in public equity and that is fund -- those assets are being reallocated into fixed income.

Generally speaking, what you see is an increase in convertibles, an increase in the Opportunistic Fixed Income sector and we will be talking much more about that in the remainder of the meeting, and allocation to emerging market debt which doesn't currently exist. So we are preparing an allocation of 3 percent to emerging market debt and a slight reduction in high yield from the current 5.5 percent to 4 percent in part because the Opportunistic Fixed Income will include some exposure to high yield. So I mentioned the increased use of a basket clause with the recommended target and we will also have an increase in the exposure to illiquid assets, but it still remains at a fairly modest level. So today we estimate the target includes primarily due to private equity and private real estate allocations about a 10 percent exposure to illiquid strategies. That's going to go up under this proposal to 15 percent when private equity and real estate are fully funded. So the expected returns remain the same and, again, the risk declines modestly.

We can look briefly at page 96, which is the next page.

MS. MARCH: Can I just talk a moment about the basket clause?

MS. PELLISH: Please.

MS. MARCH: We know that for us to do anything additional, there will be a need to change the law in the State of New York in regard to what it allows all of the retirement systems in the state to invest in the basket clause. So what I would ask, having some previous experience in terms of working with the legislature, I would ask that sometime in the fall -- because it doesn't have to be done this year, but we might want to do it next year. That sometime in the fall whether it's November, December, October or September when our calendar allows it, that we have a conversation about how not only this system, but the other systems in the city should proceed and the systems in the state should proceed so that we could educate those individuals in the legislature as to our desires to make this change rather than waking to the normal time when they make their changes in pensions in May, June or July. So I would just like us to address that sometime in the fall.

MR. SCHLOSS: Thad, do you want to update everybody on our timeline?

MR. McTIGUE: Sure. I think what Sandy said is very consistent with how our office is viewing the matter. Obviously it's something we will work with all the stakeholders, so in June and July we will be rounding up internally talking about our strategy and then reaching out to folks who are interested, many of who are around this table.

So I think, Sandy, your comments are very in line with what the comptroller is thinking.

MS. MARCH: Thank you. We look forward to working with your office so that we can achieve that.

MS. NAGASWAMI: As do we.

MS. NIEVES: So do we.

MS. PELLISH: So if we turn to page 4 very briefly or page 96, actually, for the asset allocation discussion, I just want to again reiterate the general trend which has been to reduce the risk contributed by public equities within the portfolio. So as we have discussed before, equities are relatively volatile compared to other asset classes. And because many asset classes have fairly high correlations with public equities, they tend to contribute a disproportionate percentage of the risk in any portfolio. So what you will see on page 96 is in the current long-term target. We have a target allocation of 61 percent to public equities. That contributes over 85 percent of the risk in the portfolio as defined by volatility. In the new recommended target what we are proposing is a 52 percent target allocation to public equities and again still contributing a disproportionate degree of risk, but reduced from 85 percent to 80 percent. So we are moving further down the road in terms of diversifying the portfolio and reducing the level of risk contributed by the public market equities.

So with that, I am happy to answer any questions.

MS. NAGASWAMI: My only observation, and I don't think there is anything any of us can do about this, is just how much time it's taking to get invested in private real estate. So the increase in the allocation when we are sitting here with a 1-1/2 percent investment, 2-1/2 percent committed versus a 5 percent allocation is just -- you know, it's more a time horizon thing. But it seems we are not able to invest all we have got now, so I am not sure that adding more makes a lot of sense.

And the only other comment would be, I realize this is not a six-month plan. This is, what would you say, something that we would revisit every year hopefully going forward?

MS. PELLISH: I think we can, and certainly should discuss it more frequently than the five years Larry mentioned. I don't know what the exact period is, but certainly more frequently than every three to five years.

MS. NAGASWAMI: So my only question is: I guess we will need some sort of transition plan from here to there that is more realistic about a lot of dollars are not getting invested?

MS. PELLISH: Yes. And I think that goes to the point I raised earlier which is in the fall we need to come back with a discussion for the board about what we have to do with the uninvested cash, which is essentially the same thing as the transition.

MR. SCHLOSS: We noticed the need to beef up our real estate and you couldn't have set me up better. I would like to introduce two new people to our real estate team. There is David Cheung and Carol Eglow.

Say hello. You might give a quick bio.

MR. CHEUNG: David Cheng. I used to be with Citicorp real estate investment management and I was with Turner International. And my experience primarily focused on doing real estate private equities transactions, mostly equity joint ventures, convertible debt and as well as focusing on asset management. And a few of my twenty-something years, I also have about seven years in Europe and Asian markets.

MR. AARONSON: Welcome.

MS. EGLOW: Hi. My name is Carol Eglow. It's actually been changed since last we saw each other, Larry.

MR. SCHLOSS: She was married last week.

MS. EGLOW: I just got married last week so this is my honeymoon.

So I have about 25-plus years of experience in the real estate capital markets. I was at Capital Trust which is Samsall Mezz Lending Re, and its predecessor entity for about 12 of those years. Most recently I was with True North which is a smaller fund, also mezzanine and real estate investors. I started a mezzanine lending program for Carlyle about eight, nine years ago so I have done mostly on the debt side but, you know, the gamut of geographic and property type.

And I am happy to be part of the group. I have a small child in a public school system in New York so --

MR. AARONSON: Yay. Welcome.

MR. SCHLOSS: So we check every box possible.

MR. AARONSON: I think that's great. Adding to the staff is going to go way to help Ranji's problem and speed up these things.

MR. SCHLOSS: Well, it's consistent if you go back with the plan that the controller's office presented and which you all approved, increase BAM and increase corporate funding. These are two terrific people who joined our team and the purpose is to invest in real estate. Because if you look at our funds, the 5 percent commitment has been there for three or four years. We are only 1.2 percent funded; it's too low. And now is a very good time now and the next year or two is a very good time to be investing in real estate, so we need to staff up. We staffed up. We are going to hire a junior person to help these people out and you are to see an increase in the flow of real estate investments as a result of this.

MR. AARONSON: That's great.

MR. SCHLOSS: Any other questions on the asset allocation?

MS. NAGASWAMI: Can we talk about the core noncore mix as part of the real estate conversation later?

MR. SCHLOSS: Sure.

MS. PELLISH: Yes, absolutely.

MR. SCHLOSS: So with that if there are no other questions, what we would like to do we would like the board to approve this as the asset allocation.

MS. MARCH: I think it's as usual we do a consensus.

MR. AARONSON: I don't see anybody opposed to it, so it's approved.

MR. SCHLOSS: Thank you.

MR. AARONSON: Now it's up to you to.

MR. SCHLOSS: Make it all happen.

MS. NAGASWAMI: Turn up the heat.

MS. MARCH: On behalf of the board, I would like to thank BAM and Rocaton for all the work they put in to bring us to the point where we were able to unanimously by consensus adopt a new asset allocation.

MR. SCHLOSS: Been great doing it and I am glad we are done with it.

So that brings us to the last set item on our public agenda, which is Opportunistic Fixed Income, IPS. Martin has, as always, a new draft. It's basically the draft that's in the book with one or two additional sentences, so it's not that new to be honest.

MS. MARCH: The three of us have a person in our office who as soon as we get it on e-mail, we print it on a color printer and put it in our looseleaf binder.

MR. SCHLOSS: So, Martin, you have the new --

MR. GANTZ: Yes.

MR. SCHLOSS: So why don't you briefly walk us through this because, again, this has been around for a little while, and then we can move on with the day.

MR. AARONSON: The key firm is

"briefly."

MR. GANTZ: So the IPS is now on page 107 of the book and we have here obviously as Larry mentioned the Opportunistic IPS, Opportunistic Fixed Income IPS. It has some slightly updated language, in particular the asset allocation section, and it reflects the new asset allocation policy just adopted moments ago. In particular it talks about the range now being zero to five percent or, as you will recall, it was one-and-a-half percent of the total fund. So that is now included in here.

We also included, if you turn to page 4 of the IPS, a section on benchmarking which is updated. And the big change here is to include a new benchmark for the program, which is a 10 percent net return. We've secondary benchmark that compares it to a global high-yield benchmark plus a premium, but the reality is if we are going to take illiquidity risk, go into investments that have potential higher volatility, we should be compensated for it. And so we have the benchmark of the 10 percent net.

And we added language. The one page we passed around, that red line adds a third paragraph to the very first page. So it's really the first page with a third paragraph. And what that does is it revises effectively describing the program and changes to the program, including the new separate account flexible mandates that we are going to be including and talking about and that we have been discussing with the boards over the past few months. So this particular paragraph adds language that describes that previously we were involved in funds and now we are looking to add separate accounts, very flexible separate accounts, to be able to move to market opportunities as they occur.

The initial maximum that we are talking about for an investment is one-half of 1 percent. We have language in here that allows it to grow up to 1 percent. We can talk about if it grows up to 1 percent because of market movement or because these relationships over time work out very well. We can obviously talk about that going forward. We would expect it would take some time to get money going out, as you heard from managers who have presented in the past.

But those are effectively some of the big changes that we have on here and we would like your questions if you have any. And if not, we would like to have it adopted.

MS. NAGASWAMI: Just the only comment I have on the section in red is if you want to leave out the numbers, just given that it's more of a description, that might make sense given it's about purpose and objectives and you get to the numbers later anyway. If that's somewhere else, then maybe just doesn't need to be upfront. But that's entirely your call.

MR. SCHLOSS: Okay. We will send around so everyone has it in its files a final, final so you don't get a red line one.

Take your comment and with that, we could use consensus to get this approved unless anybody has any other questions.

MR. AARONSON: Everybody agrees.

MS. ROMAIN: Yes, we do.

MR. AARONSON: Okay, we have approved it.

MS. MARCH: Yes.

MR. SCHLOSS: Perfect. Thank you. That ends our agenda for the public session.

MR. AARONSON: And that ends the agenda for the public sector on all parts of this and maybe we should take a five-minute break and come back and move on when we come back. Five-minute break.

(Recess taken.)

MR. AARONSON: Okay, we have completed the public session and do I hear a motion?

MR. AARONSON: We are now in executive session and we will start with the report on the variable funds.

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

MR. AARONSON: That closes the business in the executive session.

Do I hear a motion?

MS. MARCH: Yes, Mr. Chairman, I move that we go back into public session.

MR. SCHLOSS: I second that.

MR. AARONSON: Is there any discussion?

Seeing none we are ready to vote. All those in favor?

MS. ROMAIN: Aye.

MS. MARCH: Aye.

MS. NAGASWAMI: Aye.

MR. SCHLOSS: Aye.

MR. AARONSON: We are now in public session and in public session we are going to get a report on what we did in executive session and Susan Stang is going to give us that report.

MS. STANG: In the executive session of the variable funds, an update on stable value fund was presented. In the executive session for the pension fund, updates on several managers were presented. There was a discussion on our Opportunistic Fixed Income program and several managers in that area. Consensus was reached which will be announced at the appropriate time. There was a discussion of the restructuring plan for the private equity portfolio. Presentations on two private equity investments were received. A quarterly review and a three-year plan for the real estate portfolio was received and discussed and in an attorney-client privileged session proposed litigation as well as relevant legislative issues were discussed.

MR. AARONSON: Okay. Is there any other business before us in the public session? Do I hear a motion?

MS. ROMAIN: So moved that we go out of public session and adjourn.

MR. AARONSON: Do I hear a second?

MR. SCHLOSS: Second.

MR. AARONSON: Okay, any discussion?

Let's vote. How many people in favor of adjourning?

MS. NAGASWAMI: Consensus.

MS. MARCH: You have more than consensus.

MR. AARONSON: We stand adjourned.

(Time noted: 3:59 p.m.)

C E R T I F I C A T E

STATE OF NEW YORK)
: ss.
COUNTY OF QUEENS)

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

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of ____________, 2011.

____

YAFFA KAPLAN