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3 NEW YORK CITY TEACHERS' RETIREMENT SYSTEM

4 INVESTMENT MEETING

5

6 Held on Monday, June 22, 2015, at 55 Water Street,

7 New York, New York

8

9 ATTENDEES:

10 JOHN ADLER, Chairman, Trustee

11 SANDRA MARCH, Trustee

12 THOMAS BROWN, Trustee

13 SCOTT EVANS, Comptroller's Office

14 RAYMOND ORLANDO, Trustee

15 SUSANNAH VICKERS, Trustee

16 CHARLOTTE BEYER, Trustee

17 DAVID KAZANSKY, Trustee, Comptroller's Office

18 THAD McTIGUE, Teachers' Retirement System

19 RONALD SWINGLE

20 MELVYN AARONSON

21 MARTIN GANTZ, Comptroller's Office

22 WESLEY PULISKIK, Comptroller's Office

23 REPORTED BY:
YAFFA KAPLAN

24 JOB NO. 170941

25

1 ATTENDEES (Continued):
2 SUSAN STANG, Teachers' Retirement System
3 MICHAEL FULVIO, Rocaton
4 ROBIN PELLISH, Rocaton
5 DAVID LEVINE
6 VALERIE BUDZIK, Teachers' Retirement System
7 RENEE PEARCE
8 EVAN NAHNSEN, Comptroller's Office
9 CHRIS PAK, Comptroller's Office
10 BRIAN COOK, Comptroller's Office
11 Alex Done, Comptroller's Office
12 YVONNE NELSON, Comptroller's Office
13 JOHN MERSEBURG, Comptroller's Office
14 JOSUE PIERRE, Comptroller's Office
15 ENEASZ KADZIELA, Comptroller's Office
16 JOHN DORSA, Comptroller's Office
17 LIZ SANCHEZ, Teachers' Retirement System
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1 MR. ADLER: Good morning, everybody.
2 Welcome to the Teachers' Retirement System
3 investment meeting for June 22, 2015.
4 We are going to start with the Passport
5 Funds and will you please call the roll. Do
6 you have to call the roll for both?
7 MR. McTIGUE: Thank you, Mr. Chairman.
8 Good morning, members of the board. As Mr.
9 Adler mentioned, today is the June 22nd
10 investment meeting of the Teacher Retirement
11 Board. Mr. Adler?
12 MR. ADLER: Present.
13 MR. McTIGUE: Ms. Beyer?
14 MS. BEYER: Here.
15 MR. McTIGUE: Mr. Brown?
16 MR. BROWN: Here.
17 MR. McTIGUE: Mr. Kazansky?
18 MR. KAZANSKY: Here.
19 MR. McTIGUE: Ms. March I believe is on
20 her way. Mr. Orlando?
21 MR. ORLANDO: I am here.
22 MR. McTIGUE: And Ms. Vickers?
23 MS. VICKERS: Here.
24 MR. McTIGUE: We have a quorum, Mr.
25 Chairman, and you may start.

1 MR. ADLER: Thank you very much. I
2 think we are going to start with the Passport
3 Funds. Do I turn it to Scott or turn it to
4 Robin?
5 MS. VICKERS: Robin.
6 MS. PELLISH: Thank you. So Mike Fulvio
7 is going to make some comments.
8 MR. FULVIO: Good morning, everybody.
9 So we are going to start with the quarterly
10 report for the Passports Funds for the first
11 quarter. That's the laminated book. So this
12 was distributed ahead of time and I am happy
13 to address any questions. We did have a few
14 things we wanted to point out within it.
15 You might recall from the May meeting
16 that we had noted possible revisions to the
17 unit value. TRS provided updated unit values
18 for the Diversified Equity Fund and the
19 International Equity Fund. And if you
20 wouldn't mind, please, flipping ahead to Tab 5
21 on page 23, I just wanted to note for the
22 month of March the performance for the
23 Diversified Equity Fund was negative 1.1
24 percent in line with its benchmarks. And for
25 the International Equity Fund, that fund

1 itself was down 1.43 percent also in line with
2 its respective benchmark, the EAFE Index. And
3 we just wanted to note that for the record,
4 given it was something that we had pointed out
5 at the May meeting.
6 Were there any questions on the
7 quarterly itself?
8 MR. ADLER: I have a question, Mike.
9 MR. FULVIO: Sure.
10 MR. ADLER: So, you know, I just noticed
11 that if we look at the sort of longer-term
12 performance, one year, three year, really
13 almost across the board with the exception of
14 the inflation Protection Fund, the funds are
15 underperforming their respective benchmarks.
16 And in some cases it's, you know, fairly
17 minimal and in some cases fairly substantial.
18 I just wonder if you guys could address
19 that and have concerns about this sort of
20 long-term relative underperformance.
21 MR. FULVIO: Yes. So I believe maybe we
22 will start by focusing on the Diversified
23 Equity Fund.
24 MR. ADLER: Sure.
25 MR. FULVIO: You will note that we have

1 talked about this in the past, I believe the
2 15 percent allocation to the international
3 equity composite, and again that performance
4 mirrors the International Equity Fund. That
5 allocation has been -- it's there to serve as
6 a diversifier for the overall fund, but it has
7 detracted on an absolute basis from the
8 performance of that fund just given the
9 lagging of the developed markets relative to
10 the United States. So you can see that below.
11 For example, over the ten-year period
12 that composite returned about 4.6 percent
13 relative to the broad U.S. equity market
14 about 8.4 percent. And obviously above that
15 the impact on the Diversified Equity Fund
16 whereas there was a positive contribution from
17 the actively-managed strategies within the
18 composite, there was a little bit of lagging
19 with regard to the defensive strategies
20 composite. Although up 7 percent in an 8
21 percent market, I think that's within the
22 realm of expectations just given the defensive
23 nature of that slice.
24 MS. PELLISH: So just to jump in to echo
25 Mike's comments, if we just had U.S. equity

1 strategies, we actually would have
2 outperformed the benchmark slightly over long
3 periods of time. Because although it varies a
4 little bit by time period, if you look at the
5 actively-managed U.S. equity composite that,
6 in general, has done actually surprisingly
7 well relative to the Russell 3000 Index.
8 So it's really a structural decision and
9 the structural decision made a number of years
10 ago was to have a defensive composite which
11 was actually reduced. At one point it was 25
12 percent reduced to 15 percent and to have an
13 international equity composite for
14 diversification purposes.
15 So those two structural elements have
16 resulted in the Diversified Equity Fund
17 lagging somewhat.
18 MR. ADLER: But those -- I guess what I
19 am confused about is that the benchmark takes
20 into account the allocation to International
21 and the allocation to defense.
22 MS. PELLISH: The hybrid benchmark,
23 right. So if you look at those, so part of it
24 is structural and part of it is actually those
25 two have lagged passive indices. So you are

1 right. So both on a structural and it's
2 really those two composites that have led to
3 an underperformance.
4 MR. ADLER: And the international equity
5 slug of the diversified is the same manager or
6 managers.
7 MS. PELLISH: It's the same exact,
8 literally the same exact structure.
9 MR. ADLER: So I guess one question
10 would be, is that something we ought to be
11 looking at the international equity managers?
12 Because typically I think that the EAFE Index
13 is one that active managers can typically more
14 easily outperform --
15 MS. PELLISH: Yes, yes.
16 MR. ADLER: -- than the Russell 3000 and
17 S&P 500. And yet you have this lag, this
18 persistent under -- I am just asking, is that
19 something we ought to consider?
20 MS. PELLISH: Well, we are happy to look
21 at and the -- actually, there is much more
22 active management in the International Equity
23 Fund and composite than there is in the U.S.
24 equity program based on that logic. But in,
25 fact, if you look at the median International

1 manager, they have not done well over the last
2 five years. It's not -- there is all sorts of
3 reasons. Mostly it's been difficult between
4 countries. There is lot of macroeconomic and
5 political noise that has seemingly interfered
6 with manager's ability to identify good
7 companies and have those stocks do well as a
8 result of those good companies. We are happy
9 to come back to the board and have a
10 discussion with that.
11 So we just met with TRS at our office.
12 We just met with I think all of the
13 International Equities except one last week
14 and we do this -- we meet with all the
15 managers annually in our offices and then we
16 go Rocaton separately. Go onsite to managers
17 typically every 12 or 18 months. But there is
18 one manager SpruceGrove that has been notably
19 lagging by several-hundred basis points, so
20 there are no obvious issues with the managers.
21 I think that is the bottom line. And the
22 underperformance of this group of managers
23 unfortunately is pretty consistent with
24 underperformance of international equity
25 managers as a group. But happy to come back

1 with more detailed comments.
2 MR. ADLER: I mean, I think one question
3 again: Building on the discussion that we had
4 whether it was last month or the month before
5 about in -- this sort of challenging
6 international market, does it make sense to
7 look at going passive as opposed to continuing
8 to go 100 percent active management?
9 MS. PELLISH: Well, it's not 100 percent
10 active. I think a third of it is passive, but
11 there is still the question, yes. So happy to
12 come back.
13 MR. ADLER: I am just curious, what's
14 our overall fee basis on the International?
15 MS. PELLISH: You know, we actually have
16 specific numbers if you look at the April
17 report.
18 MR. FULVIO: Page 6. That's the
19 separate handout. This was in response to a
20 question by the board at the last meeting. We
21 went back and added the annual fees for each
22 of the managers within the Passport Funds.
23 MR. ADLER: I'm sorry which page should
24 we look at?
25 MR. FULVIO: Page 6, the third column of

1 numbers. It's entitled "Annual Fees." That's
2 a new column. And, again, all the performance
3 in this report is already net of fees, but we
4 thought it would be helpful to add this. You
5 can see the fees here and it's worth noting
6 that the fees here were flat, the aggregation
7 of assets across all of the Teachers and other
8 New York City Retirement Systems. So
9 SpruceGrove, as Robin mentioned, you could see
10 their fee there relative to the others is
11 quite -- quite favorable just given the broad
12 assets held by the other systems.
13 MS. PELLISH: But despite that, it -- it
14 doesn't make up for that. So we don't have a
15 total program cost, which would be worth doing
16 and we will add that. But if you sort of
17 roughly -- you see the passive allocation is
18 up 4 basis points and the other managers are
19 between. Spruce is at the low end of 18 and
20 Paramus is at 60. So the active managers call
21 it somewhere around 30 to 40 basis points on
22 average, it looks like.
23 MR. ADLER: So it's kind of surprising
24 that all of the managers -- all of the active
25 managers except for SpruceGrove show excess

1 returns since inception. And while most of
2 those inceptions are five years or less, the
3 inceptions, and yet we have this persistent --
4 MS. PELLISH: So -- well, these are the
5 current managers. What our program shows is
6 the impact of managers we have terminated.
7 MR. ADLER: I see.
8 MS. PELLISH: So happy to come back with
9 more detail because it's a topic that we pay a
10 lot of attention to and we would love to
11 discuss further with the board.
12 MR. ADLER: Seems like it might make
13 sense to do that in the fall.
14 MR. FULVIO: It probably makes sense.
15 Adding one of the things we talked about, the
16 managers do have some advantage going into the
17 emerging markets and emerging markets have
18 lagged developed markets for recent time
19 period. While that is a smaller piece and
20 it's worth -- and structure is set to evolve
21 with dedicated emerging market equity managers
22 as well, with the structure evolving it will
23 also evolve the benchmark.
24 MS. PELLISH: But, nonetheless, that's
25 an active decision they made. They made the

1 decision of going to emerging markets. Many,
2 if not all, managers and certainly not the
3 passive strategy and that -- that did not pay
4 off over the last five years.
5 MR. ADLER: Okay.
6 MR. FULVIO: Were there any questions
7 with regard to the quarterly, any additional
8 questions?
9 If we could, stay in the April flash
10 report and just cover the performance for the
11 month. So just if you wouldn't mind, please,
12 flipping back on page 1, you can see at the
13 end of April the Diversified Equity Fund was
14 about 11.3 billion in assets. For the month
15 of April the fund returned positive 85 basis
16 points. And you can see that return is right
17 in the middle of the hybrid benchmark for the
18 fund which returned 1.27 percent and the
19 Russell 3000 Index which returned about half a
20 percent over that time period. Year to date
21 the overall fund returned about 3.25 percent.
22 And, again, that is slightly lagging the
23 hybrid benchmark which returned about 3.4
24 percent and ahead of the Russell 3000 Index
25 which returned about 2-1/4 percent.

1 And, you know, of the things to note
2 here, you will notice the international equity
3 composite down at the bottom there returning
4 4.5 percent. We are seeing some of the
5 reversal in the performance of non-U.S.
6 markets having contributed over this month and
7 the year-to-date period. Year to date that
8 composite is up about 9.3 percent, so you will
9 see that the international allocation is
10 paying off a little bit so far this year.
11 Just above that, the actively managed U.S.
12 equity composite lagged for the month.
13 However, year to date still contributing about
14 1 percent relative to returns. The defensive
15 composite there is some lagging there as you
16 can see over the year-to-date time period,
17 though we are happy to see that over the year
18 to date it is keeping pace with the Russell
19 3000 Index. Also, we like to see how it's
20 outperforming its custom benchmark as well.
21 We already discussed the fees for the
22 Diversified Equity Fund managers on page 6, so
23 I will move ahead then to the bond fund. You
24 can see at the end of April $335 million in
25 assets there. The fund relatively flat for

1 the quarter, slightly trailing the benchmark
2 and year to date about 10 basis points behind
3 the return of the benchmark for like a five
4 year above credit. The International Equity
5 Fund about $111 million at the end of the
6 April returning about 4.5 percent. You can
7 see it for the month slightly ahead of the
8 EAFE Index. And, again, for the year-to-date
9 time period about 9 percent return lagging the
10 EAFE Index by about 9.4 percent.
11 The Inflation Protection Fund at the end
12 of the month about $44 million in assets
13 returning about 1.14 percent. Year to date,
14 the fund returned about 1.2 percent. You can
15 see that lags its custom benchmark by 1.5
16 percent over the long term. This -- this
17 overall fund has done very well relative to
18 its custom benchmark and the CPI benchmark
19 that we have in here.
20 Just below that the Socially Responsive
21 Equity Fund about $100 million at the end of
22 the month. You can see the performance was
23 lagging, negative for the month trailing the
24 S&P 500 Index, which was up about 1 percent.
25 Year to date is lagging somewhat, but doing a

1 better job in keeping pace with the return of
2 1.8 percent relative to the 1.9 percent for
3 the S&P.
4 MR. ADLER: Can I just ask, sorry, one
5 more question. Can you explain the
6 distinction between the performance numbers
7 for the separate International Equity Fund
8 from the international equity composite that
9 is part of the Diversified Fund? I thought
10 they were the same.
11 MR. FULVIO: Sure. So the exception
12 there is that there is a cash allocation
13 within the -- it's outside the international
14 equity composite, but within the International
15 Equity Fund to serve as a liquidity buffer for
16 participants who move their money from one
17 fund to another.
18 MS. PELLISH: It's a little bit of a
19 cash drag.
20 MR. ADLER: Got it, okay. Thank you.
21 MR. FULVIO: So if there is nothing else
22 on April, we can move ahead then to May.
23 There is a one-pager with preliminary market
24 performance. You can see here the Russell
25 3000 Index, the broad U.S. proxy is up about

1 1.4 percent for the month of May. That
2 brought the calendar year-to-date return to
3 about 3.7 percent positive. The EAFE Index
4 developed equity markets, we are down about 40
5 basis points in the month of May and. That
6 brought the year to date return for EAFE down
7 to about 8.9 percent. The defensive
8 strategies composite benchmark was up about 84
9 basis points. Year to date 3 almost -- just
10 over 3-1/4 percent. And the Diversified
11 Equity Fund hybrid benchmark returned about
12 1.03 percent, about 4-1/2 percent year to
13 date. And that we would expect to limit the
14 allocation of the Diversified Equity Fund if
15 they were implemented in the past.
16 That concludes the public session for
17 the Passport Funds.
18 MR. ADLER: So now we are going to go
19 into public session on the pension funds, but
20 we don't need another rollcall; is that
21 correct?
22 MR. McTIGUE: Right.
23 MR. ADLER: Okay, Mr. Evans.
24 MR. EVANS: Okay, this is our quarterly
25 report on the first quarter, March. And so

1 what you want to do is get the big spiral
2 books out which have the quarterly
3 information. Turn to page 10 in the spiral
4 book. I am going to start talking about the
5 fund overall and then the asset class heads
6 will come up and talk about their groups.
7 As you can see on page 10, the quarter
8 ended March 31st. Total plan return was 2.19
9 percent, 2.38 for the benchmark. This is
10 gross of fees in the public, net of fees on
11 private as we have been doing it historically.
12 More on that later, but this is the
13 traditional way of looking at it. Excess
14 return minus 19 basis points, 11 coming from
15 allocation selection.
16 And if you turn to page 13, you can see
17 the breakdown of the allocation selection.
18 Going down to the bottom which is the
19 selection effect, you can see the domestic
20 equity outperformed and contributed 13 basis
21 points positive and private equity
22 underperformed 23 basis points in the
23 negative. Of course, you know, I caution
24 whether private equity is positive or negative
25 on a time-weighted basis. It's -- you have a

1 lag both for the portfolio and for the
2 benchmark, but the way we think is the most
3 accurate is private equity is still a
4 cumulative IRR and a cumulative IRR for the
5 public market equivalent. Alex Done will take
6 you through that when he talks about private
7 equity.
8 If you turn to page 14, you can see how
9 the performance of the Teachers' portfolio as
10 stacked up against the Wilshire TUCS universe.
11 On the far left is the quarter. We are
12 looking at 2.19 percent, which is in the 64
13 percentile. It's a little below the average
14 fund or the median fund, whereas the benchmark
15 was a little above the median fund. And if we
16 look at the fiscal year to date and look at
17 sort of ten-year numbers and shorter-term
18 numbers bounce around a lot. That's about
19 where we have been in the middle of the pack
20 for the total fund, whereas the benchmark is a
21 little better than the middle of the pack.
22 Now, several months ago we started
23 talking about the fact that we need to change
24 the way we report to you. And, in fact, this
25 is something that you had been asking for,

1 which is to see both public and private net of
2 fees. And so we are trying to be responsive
3 to that. I had promised that for the next
4 quarterly report, the June quarter, these net
5 of fees numbers would be built into the books
6 that we had and we intend to keep that
7 promise. But I have good news for you, I
8 actually have the months for the March quarter
9 which I am going to hand out to you. This is
10 a preliminary report. Just take one and pass
11 it around.
12 So if you look at this, what I have done
13 is just to give you a -- except for the first
14 page, a stock State Street report. So I have
15 not customized the report at all. I intend to
16 do that, but I wanted to get some feedback
17 from you guys about it. It's -- the first
18 page is a little customized and you can see --
19 if you look in the three-month numbers that we
20 were just looking at, you can see the 2.19
21 which is what we report to you.
22 Now the estimated fees for the public,
23 so this is the public fees that were not in
24 the report, were five basis points over the
25 third three-month period. Taking us down to

1 2.14, so the 19 basis points that I talked
2 about goes to 24 basis points negative. And
3 you can see -- we have the data through
4 starting with January of 2014 so we can fill
5 in three-month fiscal year to date, year to
6 date and one-year numbers and you can see the
7 impact. We are running at about a 16 basis
8 point drag. In other words, our public market
9 fees are -- are costing us 16 basis points of
10 the total portfolio. And it's been tracking
11 pretty consistently over that time. So we are
12 on a one-year basis, 69 basis points below.
13 You can see in the three, five and ten
14 year and fifteen-year numbers we do not have
15 the fees. But, you know, to the extent they
16 have been consistently 16 basis points, you
17 can just subtract 16 basis points from the
18 numbers on the bottom to give you a sense of
19 where we are. We will attempt to build back
20 the history. It's going to get very, very
21 difficult when we go back before State Street
22 was custodian to a different custodian. I am
23 not sure how much history we can go into, but
24 we will be able to move forward. We will
25 integrate these reports into the quarterly

1 report for the next quarter.
2 As you can see on the following pages,
3 we have summaries by asset class and then we
4 have all of the manager detail both gross and
5 net arrayed below. I don't believe that this
6 format is easy to look at. This is a standard
7 State Street format and I am proposing at a
8 minimum, we have the net figures there so that
9 you can see quickly looking at them in red and
10 green just as you are accustomed to in our
11 other reports. But I am happy to take any
12 feedback over this the next few months from
13 you about how you would like to see this and
14 we will go forward and integrate it into the
15 books on a going-forward basis.
16 So this is pretty much what we expected
17 it to be, but we now have, you know, the
18 solid, you know, numbers built up fund by fund
19 and integrated into the State Street reports.
20 Harder than it should be. One of the major
21 reasons for this is that our contracts are
22 nonstandard rather than being, you know, a
23 basis point on average daily asset value of
24 the fund which is how 99.9 percent of mutual
25 funds and other funds here are rated. We have

1 the structures. You know, there is a cap on
2 the fee. And on the absolute dollars, it's
3 part of the procurement process and the fees
4 are calculated a little bit differently. I am
5 happy to talk about the details of that in
6 executive session, if you would like.
7 That's all I have on my piece. If there
8 any aren't any questions, I will pause briefly
9 in case you have any questions on the net of
10 fees number. If not, I will hand on off to
11 John Merseburg.
12 MR. MERSEBURG: Thank you, Scott. If
13 everyone would please turn to page 19 in the
14 spiral bound book. On page 19 we show the
15 domestic equity composite. As the slide
16 shows, the composite was ahead of the
17 benchmark by 345 basis points for the quarter
18 though it was 25 behind the benchmark for the
19 trailing 12 months. But when you look at the
20 longer term, the composite for the most part
21 has closely tracked the benchmark.
22 Turning to page 20 we have the small cap
23 composites that trailed the benchmark slightly
24 for the quarter, but is well ahead for the
25 longer-term trailing periods.

1 Next on page 21 we have the mid-cap
2 composite which was ahead of the benchmark for
3 the quarter, trailed for the longer periods.
4 On page 22 the Russell 1000 composite
5 trailed by 20 basis points for the quarter.
6 Moving to page 23, we have the Russell
7 3000 passive composite and that was close to
8 the benchmark for the quarter as expected and
9 for the longer-term trailing periods.
10 And then on page 24, we have the
11 emerging manager of managers composite and
12 that trailed the benchmark by 7 basis points
13 for the quarter.
14 Are there any questions on the U.S.
15 domestic equity portion of the report?
16 MS. BEYER: Standard deviation, the
17 three-year mark is roughly 9 and at the
18 ten-year market it's roughly 15. To me, that
19 seems a big difference. Is there something in
20 the markets that you can speak to as to the
21 fact that the volatility or standard deviation
22 just seems to be much more benign? You or --
23 MR. MERSEBURG: I mean, I don't
24 necessarily have particular insight into it
25 other than volatility is volatile. The VIX

1 Index, Martin tends to usually talk about the
2 other part.
3 MS. BEYER: It seems to be quiet.
4 Especially I am just bringing it up because it
5 seems when things get too quiet, sometimes you
6 wonder. And it's now a big difference between
7 the ten year and the three year.
8 MR. MERSEBURG: Maybe if rates change
9 that people are anticipating, that would
10 change as well.
11 MS. BEYER: I didn't expect you to have
12 a complete crystal ball or marker.
13 MR. MERSEBURG: I borrowed Martin's
14 Magic 8 Ball.
15 Then I will move on to the non- U.S.
16 equity. Turning to page 26 the developed
17 markets composite trailed the benchmark for --
18 by 29 basis points for the quarter, but it's
19 ahead of the benchmark for the longer-term
20 trailing periods.
21 You will see on page 27 the developed
22 markets growth active composite trailed for
23 the quarter, but it is ahead of the benchmark
24 for the trailing three and five-year periods.
25 And then on page 28, it's a similar

1 story. The developed value active composite
2 trailed for the quarter, but is ahead of the
3 benchmark for the longer term trailing five
4 and ten-year periods, flash for three years.
5 On page 29, the developed small cap
6 active composite was close to the benchmark
7 for the quarter. Doesn't really have a very
8 long track record.
9 And on page 30 we have the emerging
10 markets summary. The active managers trailed
11 for the quarter and that's what really pulled
12 down the overall composite for the quarter a
13 bit, but not by too much.
14 Are there any questions on the non-U.S.
15 portion of the report? Okay, if not, I am not
16 sure if I am handing it off to Yvonne for
17 REITS or markets for fixed income. Yvonne for
18 REITS. Thank you.
19 MS. NELSON: So just a brief segue to
20 REITS on page 31, the REITS portfolio has
21 outperformed its benchmark for the quarter by
22 42 basis points and for every period out to
23 ten year. The ten-year outperformance is 17
24 basis points, so a good result for the
25 program.

1 And now I think I am going to hand it
2 off to you, Martin, right, for fixed income.
3 MR. GANTZ: Thank you.
4 Good morning Mr. Chair, trustees.
5 Looking now at page 33, you will see the chart
6 that shows the overall fixed income
7 allocation. We are over $21 billion, about 35
8 percent of the plan. You will see the largest
9 by far area that we are invested in fixed
10 income is in dark blue. Nearly half of the
11 portfolio is in the core fixed income, what we
12 label "Structured Programs." Structured
13 because it's the core program broken into
14 three categories.
15 Those three categories are further
16 broken down on page 34. You will see the pie
17 chart of those categories as well as the
18 numbers. Key numbers and take-aways here are
19 the underweights and overweights. We have
20 been talking about this for quite a while.
21 Underweight the government sector, which is
22 labelled the "Treasury Agency" and we are
23 overweight the spread sectors which are
24 mortgage and credit. In this particular
25 quarter, the best returns were in the treasury

1 agency sector. But as you will see as we go
2 through the monthly report, the underweight
3 would have helped a lot in the starting in the
4 month of May because treasury yields went from
5 about 185 to where they are now in the low
6 230s, actually 250 in the second half. But
7 they are moving up and so the underweight has
8 helped.
9 In the meantime you will see in the
10 "Difference" column all the way on the right,
11 the managers did well in every one of the
12 sectors. So, for instance, for the quarter of
13 thirteen managers, eleven outperformed and two
14 managers that didn't were not by much. And
15 for the three-year period of the twelve
16 managers, every one of them outperformed.
17 On page 35 we show returns. This is $10
18 billion, 10.1 billion, 16.8 percent of the
19 fund. For the quarter, 190 versus 188. Just
20 ahead of the fund benchmark. For the fiscal
21 year to date we are behind by 45 basis points
22 which is what I just mentioned before when
23 yields went down, that underweight in the
24 treasury sector occurred. That will reverse
25 itself in the coming -- in May and so far this

1 month to date. That's why the underweight of
2 30 basis points for the one-year number,
3 although with the yields so low that's the
4 explanation for why you have a 6.8 percent
5 return when yields are so low and that's
6 because of duration. When yields go down, we
7 have a very high long duration of over six
8 years in the program. So if rates go down 1
9 percent, you earn 6 percent right there. So
10 the rates went down by about 1-1/2 to 1
11 percent and that explains the return. For the
12 three years and all the longer times periods,
13 we are well ahead of the benchmark given our
14 expectations, 49 basis points for three years
15 and longer-term periods ahead of the benchmark
16 as well with returns for three years at 4.33
17 and in the high 5s and low 6s for the longer
18 time periods. You will also see in the
19 volatility on the bottom, very low, abnormally
20 low and so we should expect going forward that
21 that number does go up. But again when we say
22 go up, going from the 3s to maybe 5 percent.
23 So compared to equities, this is barely
24 noticeable. And compared to fixed income,
25 it's what we would expect. So we have been in

1 the very, very benign environment for fixed
2 income.
3 Progress is on the next page. Emerging
4 manager of managers. I'm sorry, did I skip a
5 page? No, page 36. And they did well in the
6 quarter outperforming by 19 basis points,
7 returning 1.8. Similarly under the benchmarks
8 slightly for the fiscal year-to-date 12 months
9 by 30 basis points and 6 basis points
10 respectively for similar reasons. That will
11 reverse itself starting in the month of May.
12 You will see in the next report -- you
13 will see from us in the monthly report as well
14 as in the next quarterly report, which would
15 be in September for the fiscal year ending
16 June. For TIPS, by the way, for emerging
17 managers you will see LM yet because they were
18 just funded. So you are not going to see that
19 yet. You will see that probably in the
20 September or December quarter. For TIPS this
21 reflects returns and includes the transition.
22 You will see things went well. For the
23 three-month period the returns were 165, 23
24 basis points ahead on the $1.4 billion in
25 TIPS. And for the fiscal year to date, the

1 returns are mostly -- while they are negative
2 because -- that's because the returns for the
3 asset class were negative, but we are 8 basis
4 points ahead of the benchmark. And for the
5 one-year period right on top of the benchmark,
6 310 versus 311 and longer-term period between
7 15 -- about actually 11, 16 basis points. So
8 just ahead of the benchmark. One of the
9 reasons why we decided to put more in passive
10 than active.
11 High yield is on page 38. High yield
12 has been a very active area because energy, it
13 is one of the larger sectors and energy has
14 been very volatile, to say the least, for the
15 quarter ending December in a negative way and
16 the quarter ending in March in a positive way.
17 So the return for the month quarter on the
18 left were positive on an absolute relative
19 basis by 26 basis point returning 274. But
20 you see fiscal year to date roughly flat 18
21 basis points behind and 12 months returning
22 213. The 213 is partially because of
23 duration, but also because of the energy
24 sector. So it's high yield, but the high
25 yield starts showing up in the longer-term

1 numbers. The high part of it, returns start
2 showing up as in the 78 percent range
3 returning ahead of the benchmark with the
4 exception of five years just 14 basis points
5 behind. And you will remember that
6 encompasses the time period where we got rid
7 of managers after 2012. That was because of
8 our search that were underperforming and were
9 replaced with what we believe are better
10 managers to replace them and we are very
11 comfortable with the managers. So for the
12 quarter the eight managers, seven outperformed
13 in a different report.
14 MR. ADLER: Can I just ask one question
15 about it. So it's interesting that our
16 long-term standard deviation --
17 MR. GANTZ: This came up before. I know
18 what you are going to ask. The 4.3, that is a
19 typo.
20 MR. ADLER: Oh, it's still there.
21 MR. GANTZ: No, it's a typo that is not
22 a typo that is a typo. What do I mean? The
23 benchmark.
24 MR. KAZANSKY: Talking like a
25 politician.

1 MR. GANTZ: The benchmark provider is
2 correct as per our benchmark provider, but it
3 is incorrect. They simply have an error in
4 there. They haven't fixed it and they are not
5 going to fix it, so you will see in the ten
6 years it starts evening out. They are simply
7 not going to not going to fix it. That's the
8 benchmark provider response.
9 MR. ADLER: Can we fire the benchmark
10 provider?
11 MR. GANTZ: It's a volatility number
12 that will as you see over time even out. But
13 I can tell you when we looked at these numbers
14 internally, as you see in the long-term
15 numbers they are pretty much right on top of
16 the benchmarks even though these are all
17 active managers. So it's an error in what the
18 benchmark is saying the standard deviation is,
19 but they are not going to fix it. You will
20 see that we did well in the three months --
21 actually, I just did that. Bank loans are
22 higher in the capital structure and so any
23 problems that we had in -- in high yield in
24 energy would be lessened in this case. And
25 overall in the long term you would expect a

1 return that's lower than high yield, but
2 higher than core plus 5 with less volatility.
3 No volatility here yet. It starts showing up
4 after three years. And the returns are all
5 good. We have five managers and all five
6 outperformed in the one-year period. And the
7 one-year period is 389 versus 283 over 100
8 basis points, so the program has done quite
9 well.
10 Convertible bonds is on the next page,
11 page 40. We have been telling you, we will at
12 some point outperform the benchmark for the
13 program and we have this quarter for the
14 fiscal year to date, I should say. This
15 quarter was underperforming slightly, but we
16 added the gray and I want to remind you the
17 light blue is the overall benchmark. None of
18 our managers, of our three managers, managed
19 to reach that benchmark. There is a benchmark
20 overall, so over a market cycle markets go up
21 and down. You would expect the program
22 outperforms it. Unfortunately, we haven't had
23 that because the market has been a bull market
24 since we funded that. Not that I am hoping or
25 we hope to lose money and the market go down,

1 but when that occurs because of the way the
2 benchmark is constructed what happens is a
3 name that's 1 percent of the benchmark becomes
4 2 percent, 3 percent 4 percent, 5 percent,
5 even 10 percent. Our managers for purely
6 risk-related purposes aren't going to own 10
7 percent of anything, so as something is going
8 up they are cutting back by its very nature.
9 So in a bull market that hurts them, in a bear
10 market that helps them. So for a market cycle
11 it will come back. So you see that in the
12 gray they are outperforming their individual
13 benchmarks quite nicely, but the light blue
14 for the fiscal year to date they are doing
15 okay, and for all the periods they are
16 outperforming the benchmark. And, by the way,
17 the longer term period includes Lord Abbett
18 which was terminated several years ago. So
19 the program is doing what we expect, which is
20 better returns. Basically 75 percent of the
21 U.S. equity with about 40 percent of
22 volatility.
23 Opportunistic Fixed Income is on page
24 41. For the short term, first of all, these
25 returns like private equity are kind of

1 trailing while we say the last three months.
2 This is not the quarter ending March. It's
3 mostly December and that's the quarter that
4 had the terrible returns for energy. Our
5 managers were just starting to get into the
6 opportunities that they saw in energy so it
7 was a difficult quarter then, but our managers
8 aren't really looking at or being measured or
9 evaluated on a quarter or monthly basis. So
10 we know what they are doing, we understand
11 what they are doing, and we expect that that
12 will do well. And the long-term numbers that
13 you see in three and five years will continue,
14 but the underperformance that you see in the
15 short run while the numbers on an absolute
16 basis are good, they are underperforming our
17 high benchmark of 10 percent because of what
18 they do. But if you look at them versus the,
19 for instance, fiscal year to date of one year
20 versus the gray which is the global high field
21 that includes the securities, they are doing
22 very well and they are actually doing what we
23 expected. We will have more information on
24 them when we have our annual plan, which will
25 be September or October.

1 We also have something in the executive
2 session today. Unless you have any questions,
3 I am going to turn it over to.
4 MR. ADLER: I just want to make one
5 point, that Ms. March has walked in. Thank
6 you.
7 MR. COOK: Hi. For our last chart, the
8 ETI portfolio on page 42. Overall Teachers
9 outperformed its benchmark by 59 basis points
10 over the last quarter and 200 basis points
11 over the last fiscal year. And you can see we
12 are doing very well in our standardized
13 returns.
14 So switching now to the big book which
15 actually feels less big which I guess is a
16 good thing, but come up with a new name for
17 it, page 8. We will go over what we did for
18 the collateral benefits and I will describe
19 how each program is doing.
20 On page 8 and 9 we have the PPAR
21 program, which is our long-term loan program.
22 The chart that looks like this for anyone who
23 the PPAR program outperformed its benchmark by
24 86 basis points in the first quarter and 315
25 basis points over the last 12 months. During

1 the first quarter, Teachers purchased $44
2 million worth of loans to create or preserve
3 133 units. And I should note that in the
4 first quarter, we had our first rate lock from
5 Lisk who was one of the approved lenders that
6 Teachers passed back in 2013. They are a good
7 nonprofit. It's $6.6 million loan of which
8 Teachers' portion will be 1.9 million. So we
9 are starting to see some of our new managers
10 originate new loans for us, which is great.
11 Moving to the next two pages, page 10
12 and 11, we have AFL-CIO HIT. The HIT
13 underperformed its benchmark by 1 basis point
14 in the first quarter and outperformed by 23
15 basis points over the last 12 months. And I
16 should note that is the net of return number.
17 There is the -- there was an issue with State
18 Street putting together our full returns on
19 page 42 where they combined net and gross
20 starting in November. So pre-November we had
21 net, post-November we had gross. It's an
22 internal back-end thing that they are trying
23 to fix, but mea culpa that will change the
24 overall category slightly once we get that
25 corrected. And I should note that in the

1 first quarter, the AFL-CIO HIT invested 8
2 million into Harry Smith Houses, which we
3 covered last month when we were talking about
4 workforce housing.
5 And last on page 12, we have access
6 capital strategies. They invest in
7 multifamily and primarily single-family homes.
8 Access outperformed its benchmark by 50 basis
9 points in the first quarter, 207 basis points
10 over the last 12 months. On the collateral
11 benefits side in the first quarter, they
12 purchased $10 million of Ginnie Mae securities
13 for Christopher Court in the Bronx. And, in
14 addition, they purchased $5 million in a
15 Fannie Mae securities for Section 8 apartments
16 in little Italy in Manhattan which is, you
17 know, a very unique opportunity to keep a
18 portion of the city affordable.
19 And with that, I will turn it over to
20 Alex Done unless there are any questions.
21 MR. DONE: So we are going to review the
22 private equity quarterly update. Just to
23 recall, private equity is on a lag so we will
24 be reviewing the December, 2014 quarter.
25 And by way of introduction while I am

1 standing, I want to reintroduce Eneasz
2 Kadziela who I believe you met at -- I believe
3 at our last meeting in May. As we continue to
4 grow the team, he has been with us since
5 earlier this year. And I will have Eneasz
6 walk us through some of the highlights for the
7 quarter and we will be on page 24 of the large
8 book.
9 MR. KADZIELA: Good morning, everyone.
10 I will be walking you through the December 31,
11 2014 private equity quarterly report which
12 Alex mentioned starts on page 24 of your
13 agenda package. And on this page we have a
14 snapshot of your active commitments and
15 overall portfolio performance. So as of
16 December 31st, Teachers had 5.6 billion in
17 active commitments across 94 managers. And
18 the private equity portfolio had a market
19 value of approximately 2.7 billion, which
20 represents 4.7 percent of total plan assets.
21 In addition, unfunded commitments totalled 2.1
22 billion, resulting in a total exposure of 4.9
23 billion to the asset class. Looking at the
24 bottom of the table you can see the portfolio
25 since inception, net IRR declined 6 basis

1 points over the quarter to 9.39 percent from
2 9.45 percent while the net multiple remained
3 steady at 1.3 times.
4 Turning to page 25, we list the recent
5 commitments. And you can see that for the
6 fourth quarter, Teachers closed on five
7 commitments during the quarter an aggregate of
8 486.4 million to one core manager and four
9 emerging managers. On the next page, we show
10 the commitments that were closed subsequent to
11 quarter end through June, 2015. And TRS
12 closed on an additional 167 million to three
13 partnerships, two core managers, and another
14 emerging manager.
15 Turning to page 27, you can see your
16 portfolio's return presented over various time
17 periods and against the relative benchmarks.
18 Since inception, the portfolio generated a
19 9.39 percent net IRR, which lags the program's
20 benchmark by 396 basis points. On a one-year
21 basis the portfolio generated an 8.82 percent
22 net IRR, which does trail the program's
23 benchmark due to the continued outperformance
24 of the public markets. However, given the
25 long-dated nature of the asset class, we

1 believe that the since inception figures are
2 the most relevant.
3 Let's take a quick look at page 28 for
4 the quarterly value analysis. As far as cash
5 flow activity during the fourth quarter, the
6 portfolio was cash flow positive to the tune
7 of the 21.4 million and it has been cash flow
8 positive in two of the last five quarters.
9 You will notice that both quarter over quarter
10 and year over year the portfolio value has
11 increased net of cash flow activity. Over the
12 prior quarter the portfolio increased 1
13 percent or $27.8 million. And over the prior
14 year the portfolio increased 8.2 percent or
15 $208.4 million.
16 And, lastly, I would like to turn to
17 page 32 where you can see your portfolio
18 exposures. You will see here that Teachers'
19 portfolio is broadly diversified with buyouts
20 representing the largest exposure 54 percent
21 relative to a 60 to 85 percent target. This
22 exposure should increase as we continue to
23 source and commit to high-conviction buyout
24 managers. In terms of the geography at the
25 portfolio level, North America represents the

1 largest exposure of 80 percent, with Europe at
2 15 percent, and the rest of the world at 5
3 percent. And we also break out here the New
4 York State and New York New York City
5 exposure. And in terms of market value, 8
6 percent of Teachers' portfolio is exposed to
7 New York State-based companies and 4 percent
8 is exposed to New York City-based companies.
9 Are there any questions?
10 MR. ADLER: Thanks, Eneasz.
11 MR. DONE: Thank you.
12 MR. EVANS: Let's move to real assets,
13 Yvonne.
14 MS. NELSON: So we are going to start
15 the real asset report beginning with real
16 estate and it immediately follows PE, page 46.
17 Looking at page 47, so again we are
18 going to be talking about the fourth quarter
19 of 2014 a quarter lag. What I always look
20 forward to about the fourth quarter is that
21 when -- that's when everything gets scrubbed.
22 So you have auditors coming in looking and
23 preparing financial statements and in
24 particular looking at the GP's estimate of
25 value. And in some instances that estimate of

1 value is also kind of farmed out to an
2 appraisal, so this is actually a good look at
3 the portfolio here at the fourth quarter.
4 Marketwise the real estate recovery continues
5 to take hold, particularly in the U.S. as
6 leading the way followed by London. Less
7 distressed in the U.S. kind of confined them
8 in pockets and that's exactly what your
9 managers are doing. Europe is probably where
10 there is more wholesale kind of distress and
11 hopefully we will be bringing you
12 opportunities to take advantage of that.
13 Overall transaction volume and real estate is
14 up over 20 percent. Again boosted by high
15 values, record sales, and in particular you
16 have low interest rates which helps buyers
17 when they want to finance those properties.
18 So let's go into an overview of the TRS
19 portfolio and we can see how these trends
20 manifest themselves. So for real assets we
21 have an allocation of 6 percent, give or take
22 2 percent that we have for rebalancing. And
23 the market value of the real estate that we
24 have in the ground today is about a billion
25 and a half, which is 20 percent more where we

1 were 12 months ago at 1.2 billion. So a year
2 over year 25 percent increase in value. We
3 have about 925 million that we have sitting on
4 the side, the unfunded commitments that we
5 have made and all together our exposure to
6 real estate is $2.4 billion. That comprises
7 of about 46 separate investments by 36
8 managers who are executing core and noncore
9 strategies for you. In terms of portfolio
10 construction, our IPS and our discussions with
11 the trustees and what the trustees have
12 approved is a portfolio that's a blend of core
13 strategies and noncore strategies and there is
14 a 40 percent floor on that. So as of fourth
15 quarter we were 40 percent core, core plus
16 investments, and about 60 percent noncore.
17 And so let's kind of look at the
18 performance results. Over to the right, the
19 lower right, good news here. For the fourth
20 quarter, the quarter that we spoke about, you
21 know, Teachers is ahead 4.4 percent. The
22 benchmark is 3.3 percent. You will see that
23 the Teachers' real estate portfolio with the
24 exception of the three-year outperforms the
25 benchmark.

1 A little word on the benchmark. So the
2 benchmark is a time-weighted benchmark. It's
3 based on core real estate and we have talked
4 about the fact that the portfolio is actually
5 a blend of core and noncore. So to raise the
6 bar a bit the benchmark is the ODCE benchmark
7 which is a core benchmark, but we have also
8 assessed a hundred basis points on top of
9 that. So when you look at this graph down on
10 the lower right, the Teachers' portfolio was
11 the dark line and the benchmark is the lighter
12 line. And the mile marker for us in terms of
13 the IPS has us to look at the performance over
14 the market cycle, which we define in the IPS
15 as ten years. So if you kind of look at that
16 ten-year bar, you will see that the results
17 are very strong for the TRS real estate
18 portfolio, outpacing the benchmark by 410
19 basis points.
20 Also an alternative measure, if you just
21 want to kind of go by cash flow dollars in and
22 dollars out, the IRR for the portfolio to date
23 on an after-fee basis is 9.1 percent in real
24 estate reflecting a 1.3 times equity multiple.
25 So that's an overview of where we sit today.

1 In terms of new activity, we closed $65
2 million commitment, re-upped to H2 in addition
3 to another re-up to Almanac VII of $65
4 million. We have -- also TRS has also gave
5 its consensus on commitments for two emerging
6 managers and an additional core plus that we
7 are still working on and we hope to be closed
8 the next time that we see you.
9 On the following page -- which I am
10 going to by the page numbers, page 2. So page
11 2 is a further discussion on the portfolio in
12 terms of investments style. The circle graph
13 shows -- the darker circle shows a portion of
14 -- the circle shows your noncore exposure.
15 And, again as I mentioned, we are right on top
16 of policy at 60 percent for noncore and 40
17 percent for core/core plus. The table down at
18 the bottom merely translates what that means
19 in numbers. So the second group of numbers, I
20 am looking under style sector exposure where
21 there are dollar figures. There is an
22 unfunded core -- unfunded noncore and unfunded
23 emerging all indicating capacity to do more
24 business. And lastly on this page, I think
25 it's important to kind of talk about the

1 status of the program. We are 2-1/2 percent
2 funded in real estate at this point and 4.1
3 percent committed.
4 The following page on page 3, this is
5 really a deep dive into the quarterly
6 performance. It breaks up the performance
7 between those core and noncore managers and
8 investors and it has a graph down at the
9 bottom. This is great, but again it's a
10 quarterly snapshot and real estate is a
11 long-term asset class. We are going to be
12 moving up and down with the market, but it's
13 also always good to tell good stories when you
14 can.
15 On the following page on page 4, it's a
16 different look at the portfolio. So on the
17 right this table is showing you which managers
18 or which investments, rather, are driving the
19 performance for the quarter. So everything
20 out to the right as the arrow indicates
21 pointing up is above average. And if you look
22 down toward the left, the arrow going down
23 shows you the investments that are performing
24 below average. For this particular quarter, I
25 would say that the engines that are driving

1 the portfolio was related to Taconic and KTR.
2 And what I think is interesting about these
3 drivers of returns even though it's just for
4 the quarter related and Taconic of course, as
5 you know, is your New York-based operating
6 partners so they are doing very well and of
7 course New York City is doing very well. KTR
8 is an industrial specialist. All three of
9 these teams sponsor investment vehicles that
10 are under a billion, so they are flying under
11 the radar. And I think this kind of speaks to
12 what we at BAM are trying to do and that's
13 identify strong investment class managers no
14 matter what size they are. So now you have
15 mid-size and small-size managers pushing
16 returns for the quarter and that's a good
17 story.
18 The next page shows how we diversified
19 the portfolio by property type and geography.
20 So again the Teachers' portfolio is a dark
21 line and the ODCE is a the white bar, so again
22 the ODCE is a core benchmark. We are not
23 going to match up exactly because our
24 portfolio is a blend of core and noncore
25 strategy, but we would like to share this

1 information with you. And down at the bottom
2 in particular, we have been tracking our New
3 York City exposure within the portfolio. So
4 if you look over to the left on the Northeast
5 bar, that triangle that you see indicates an
6 exposure to New York City of 17.3 percent.
7 Also for those that are interested in terms of
8 -- our international exposure is growing and
9 that's at approximately 16 percent.
10 MR. ADLER: May I just ask a question.
11 So the benchmark doesn't have an
12 international; is that correct?
13 MS. NELSON: That's correct.
14 MR. ADLER: We are growing, we are 15.8
15 and growing, so that seems a little bit of a
16 disconnect, right, to have an essentially
17 international portfolio against the domestic
18 benchmark?
19 Is there any way to sort of take a look
20 -- is there an international benchmark we
21 could incorporate to more accurately reflect
22 the composition of our portfolio.
23 MS. NELSON: They are all kind of
24 emerging and I would say that most
25 institutional investors are constantly looking

1 at the real estate benchmarks coming out from
2 real estate for this reason and for others.
3 The other reason obviously is my constant
4 reference that the index is core versus, you
5 know, we have core/core plus so. We are all
6 -- especially internally at BAM we have been
7 looking at different benchmarks that are
8 around in the industry.
9 MR. ADLER: Okay, thank you.
10 MR. EVANS: We are sort of less
11 satisfied with this benchmark than any other
12 benchmark we have and Yvonne and I and the
13 rest of the team are actively talking about
14 it.
15 MR. ADLER: Thanks.
16 MS. NELSON: Any other questions on real
17 estate? I will turn it over to Evan.
18 MR. NAHNSEN: Good morning. I am going
19 to give a quarterly update on Teachers'
20 infrastructure portfolio which is on page 56.
21 The IRR of the program to date is 13.9
22 percent. That exceeds the benchmark IRR by
23 820 basis points. Deployed as of quarter end
24 was $42.2 million. Some commentary, I guess.
25 I think this 13.9 percent number is actually

1 misleadingly low a little bit because if you
2 look on individual performance, Brookfields is
3 with a 16 percent IRR and it's being dragged
4 down slightly by first reserve which just had
5 one draw for fees during the quarter. So you
6 are actually doing even better than we think,
7 although the program is in its initial stages.
8 The market continues to be challenging,
9 especially for large core assets, as systems
10 search for yield in this low interest rate
11 environment and also there is increasing
12 interest in the asset class. The managers you
13 have hired are doing a great job of turning
14 over rocks to find deals that are not shopped
15 to the broader markets and we are happy. I
16 think in the pacing update that we are talking
17 about later, we will have some more news since
18 quarter end.
19 MR. EVANS: Thanks very much. Okay, if
20 there no other questions about the quarterly
21 report, we will turn to the April monthly
22 report briefly. We will go over that and then
23 get to the asset allocation review.
24 If we return to the flip book, on page
25 32 -- first of all, I want to go to page 39.

1 This gives you the returns for the month of
2 April. The fund was up 85 basis points versus
3 68 to the benchmark so it's a good month
4 relative to the benchmark, up 17 basis points.
5 This is gross public net of private.
6 If you look at how that 85 breaks down
7 at page 31, you can see that most of the
8 return here in the equity side is coming from
9 the international in yellow and emerging in
10 brown. You can see how different that is from
11 the one-year time period where most of the
12 return was coming from the U.S. equity market
13 in green. This is fortuitous and our
14 rebalancing policy has paid off for us. If
15 you remember, last summer about a year ago we
16 went from a very overweight position in U.S.
17 equities to more balanced position. We had no
18 idea that the, you know, international was
19 going to outperform. But by rebalancing we
20 are actually buying things that are weak,
21 throwing things when they are strong, and it's
22 paid off for us during the recent period of
23 time.
24 You can see our current structure on
25 page 32 and you can see we are sticking to the

1 plan of being balanced relative to policy on
2 the equities. That's on the left side where
3 there is about a zero -- and on the right
4 side, although very long-term objectives are
5 to stay balanced relative to long-term
6 targets. We are overweight short-term
7 securities, those less than four years in
8 gray, and underweight long-term securities in
9 blue, both dark blue and light blue. We will
10 continue to do that.
11 As Martin has said, recent months the
12 wind has been in our faces a little bit. But
13 just very recently interest rates which begin
14 to climb, that's paying off for us relative to
15 our normal stance as we are closer to the
16 Barclays' Ag with a little shorter duration
17 than would be our long-term preference.
18 I am going to turn it over to Martin now
19 and he can give you some highlights of April.
20 MR. GANTZ: Thank you.
21 So working on what Scott just mentioned,
22 if you turn back a few pages to page 27 you
23 will see the returns for April by asset class.
24 So in the first set of -- it's the page that
25 looks like this with all the numbers. The

1 first set of numbers is U.S. Russell 3000 was
2 up 45 basis points, but as Scott mentioned the
3 returns really came from non- U.S. equity.
4 Second set of numbers you will see the returns
5 were very, very strongly positive in both the
6 EAFE and emerging markets. Down at the bottom
7 the core plus 5 is down 45 basis points.
8 That's when interest rates started going up.
9 May will be on the next page. You will
10 see a similar story. And June, which we don't
11 have yet, will be even further. The high
12 yield did well, bank loans did well, TIPS did
13 okay, surprisingly so because of the interest
14 rate rise. Convertible bonds did well. REITS
15 did not and that's because they are very tied
16 to interest rates. So just like REITS were
17 superb investments when rates were going down,
18 when rates go up -- at least in the short term
19 the rates are tied to rates. So when rates go
20 up, REITS went down. And REITS went down by
21 over 5 percent a month.
22 Scott mentioned on page 31 return for
23 the month was 85 basis points bringing the
24 fiscal year of return to over 4 percent. May
25 was a good month. And just to show you that,

1 the month looks like almost a duplicate other
2 than non-U.S. equity what the April numbers
3 looked like. So if you turn back the page
4 from this or a page forward from the April
5 returns, you will see Russell 3000 up over 1
6 percent. Non-U.S. was down. Core plus 5 is
7 down 37 basis points. High yield was up, bank
8 loans were up, TIPS were down, REITS were
9 roughly flat, so that 412 for May will be
10 higher. The question is, do we hit a 5.
11 That's going to be close. We will see it in
12 the next book that we print. Where are we now
13 because, you know, June we can't -- the
14 markets have come off their record highs and
15 recently came back and today was at least a
16 strong morning before I left, at least in the
17 pre-trading. And the short answer is I ran
18 this on Friday. We are approximately -- while
19 May was very good, June came back down and
20 came back up. So we are pretty much back to
21 where we are here, a little bit higher. So
22 probably in the mid-4s right about now. We
23 got a couple of weeks or ten days to the end
24 of the fiscal year so I know that's important,
25 but as soon as we get that number we will be

1 transmitting that information to you, a couple
2 of pieces of information.
3 Turn back to pages 15 and 16. What's
4 been driving the market a lot has been the
5 EAFE returns, certainly versus the U.S. on
6 pages 15 and 16. You will see that the dollar
7 finally is weakening after a strong period of
8 strength. That weakening accelerated in the
9 last week when the Fed met and Chairman Yellen
10 made -- not only did not raise rates, but made
11 it clear that rates are not going up
12 immediately. Probably not until the end of
13 the year. Of course, no one really knows.
14 The feds speak. It can change from week to
15 week or speech to speech, but what that did
16 was part of the strength in the dollar was the
17 expectation of rates going up. One currency
18 versus another in very simple terms if one
19 currency all things being equal is paying a
20 higher level of interest, well, that currency
21 will be stronger. That's usually in the long
22 run. In the short run it can be exaggerated
23 the moves and that's what we see. You saw
24 really the move from 80s to about 100. That's
25 a 20 percent move. That is a remarkable move

1 in a short period of time for the dollar as
2 you see on page 15 and a similar move on the
3 downside. Most of it was driven by the euro,
4 but a similar chart for the yen. The yen
5 actually would look even more exaggerated, but
6 it's come of off the lows. So the dollar has
7 weakened because of the chairperson's comments
8 that the rates aren't going up any time soon.
9 That obviously will change when the news is in
10 the markets that the expectation is it's
11 happening. You will see strength again.
12 Crude oil prices on page 17 has been a big
13 factor. You will see after the remarkable
14 move downwards by a factor of 2 or factor of
15 50 percent, prices have settled around $60 a
16 barrel for quite some time. The VIX is very
17 calm at 13, which historically is a very low
18 number and that's why the equity markets are
19 doing okay.
20 Page 20 shows the ten year. The time we
21 did this last week, it was 237 and I think now
22 it's in the low 230s. I think it happened
23 this morning. But you will see while it
24 doesn't look like much, it's a remarkable
25 increase from the 180 on a percentage basis.

1 And that's why the core plus 5 is
2 underperforming, in particular the government
3 sector. And that's why starting in May and in
4 June, you will see much better returns in that
5 sector where we had underperformance because
6 of that positioning that the underweight
7 overall and the underweight in governments
8 that will have paid off in the month of May.
9 MR. ADLER: Martin, can you give us the
10 30-second version of why such a dramatic
11 increase in ten year?
12 MR. GANTZ: If you want to pay me like a
13 hedge fund manager, sure.
14 MR. ADLER: Didn't I just agree to do
15 that.
16 MR. GANTZ: So when interest rates --
17 it's about -- it's about several things. In
18 Europe -- rates have moved up in Europe.
19 Rates were actually negative in Germany, which
20 is a safe haven in Europe. That was for
21 technical reasons and for common sense
22 reasons. It doesn't make sense for anyone to
23 be investing guaranteeing themselves a
24 negative rate of return.
25 In addition, the problem with Europe

1 about Greece and the euro. So it's a safe
2 haven investment. Investors, especially
3 sovereign banks, are buying dollars. And when
4 they are buying dollars they are buying
5 treasuries with those dollars, so that helps,
6 but what is hurting is the reality that rates
7 are going to go up when we don't know. And so
8 what's happening is the yield curve is
9 shifting up in a parallel sense and, quite
10 frankly, flattening a little bit. So the
11 short end is moving up or frankly lately in
12 the last week it went back down. But when it
13 was moving up, the long end was moving up, the
14 short end was catching up.
15 So if you look at the yield curve over
16 here, this is actually a good picture on page
17 19 (indicating). It's a reaction. The
18 market -- regardless of the fact of the save
19 havens I just mentioned, this concern about
20 rates rising in the U.S. outweighs all of
21 those other factors and the fast money, the
22 hedge funds. And the managers trying to buy
23 low, sell high are trying to get ahead of
24 that. So even though rates aren't expected to
25 go up they are moving not only ahead of the

1 news, they are moving ahead of the news which
2 isn't even news yet. So when rates move, they
3 really move very fast. I am talking about
4 long rates. It went up from 180 and change to
5 230 in the blink of an eye really and then
6 kind of flattened out a little bit. I would
7 expect this to happen again when people expect
8 rates to really move, so it could be when
9 rates drift lower.
10 This is speculation. This is my 30
11 seconds. I know it's more than 30 seconds,
12 but that's what going on in the markets, what
13 our managers are telling us.
14 Scott, you want to say anything?
15 MR. EVANS: No. It's been an
16 extraordinarily move in the long term,
17 extraordinary.
18 MS. MARCH: Can I just say, you
19 mentioned the word "Greece." And if I
20 remember an investment meeting back aways we
21 had an education on all the dangers investors
22 may face because of Greece and Ireland and
23 Portugal and Greece has been in the newspaper
24 a number of times in the last week two or
25 three. So could we do that kind of education,

1 reeducation again at our first investment
2 meeting? I think it would be very helpful.
3 Thank you.
4 MR. GANTZ: So noted.
5 MR. EVANS: With that, Mr. Chairman, I
6 believe you have the next item, asset
7 allocation.
8 MR. GANTZ: Thank you.
9 MR. ADLER: Thank you, Martin. So this
10 is page 141 of the agenda book. Okay, so this
11 is a proposal that we direct the chief
12 investment officer and BAM with the assistance
13 of the chief actuary Rocaton and, if
14 necessary, our asset class consultants to lead
15 us in a full asset allocation review.
16 Any discussion or questions about the
17 proposal? So one question just that is in the
18 memo here is how we want to schedule our
19 discussion on asset allocation. I really look
20 to Robin and Scott. Is this something that we
21 need to schedule separate sessions to do or
22 can we do it in the context of our regular
23 investment committee meetings in the fall?
24 MR. EVANS: I mean, we can try to do it
25 in a regular session. And if the scheduling

1 gets to be such that it's just not going to be
2 possible to give the time that it needs, we
3 can schedule it in a special session. In the
4 past, you have been able to do it.
5 MS. PELLISH: Yes. And now we have time
6 set aside at each meeting for educational
7 topics. We can use that time.
8 MR. ADLER: Okay. Any other questions
9 or discussion?
10 Okay, so I think -- I guess the question
11 is do we have consensus, right?
12 MS. MARCH: We have consensus, at least
13 the Teachers' trustees' consent.
14 MR. ADLER: Anyone else?
15 Okay, so we have consensus to move
16 forward with the proposal.
17 MR. EVANS: We will work with Rocaton to
18 do that as expeditiously as possible.
19 MR. ADLER: Thank you very much.
20 MS. MARCH: Does someone have to notify
21 the actuary that we are doing this, because I
22 know the actuary does play a role in this.
23 MR. EVANS: Yes. We are trying to get
24 on Sherry's calendar to talk about a number of
25 things, but we will make sure they are looped

1 in.

2 MR. ADLER: Okay. So as far as public

3 session, then we move into trustee education.

4 MR. EVANS: I guess Rocaton.

5 MS. PELLISH: There is a handout that's

6 being distributed. It's on asset allocation.

7 And I believe this was sent out in advance as

8 well and this is the same exact dec that was

9 received by e-mail. So we put together a few

10 pages that really talk about just the

11 principles of asset allocation. These numbers

12 do not speak to the pension fund specifically,

13 but are intended to provide some underlying

14 principles that we would certainly use in the

15 upcoming asset allocation study.

16 So if I can ask you to turn to page 2

17 and just talk about the introduction, the

18 reason why we focus on asset allocation is

19 because it's the single most important

20 decision that the board can make and we cite

21 here a number of studies that confirm that

22 asset allocation -- the asset allocation

23 decision determines more than 90 percent of

24 the volatility that the portfolio will

25 experience. So it's a really key -- really

1 key policy. And, in fact, I -- and most
2 observers think it's the most important
3 decision we can make. We spend a lot of time
4 talking about performance above and below the
5 benchmark because of active managers. And
6 while that's important, it is dwarfed by the
7 performance of deciding which asset classes
8 you will invest in and what the allocations to
9 those asset classes will be.
10 So when we go through the asset
11 allocation, we will need to identify what our
12 objectives are in terms of risk and return.
13 So we have the 7 percent rate of return
14 hurdle, but we also need to identify what's a
15 reasonable level of risk to assume over both
16 short and long-term periods of time. We need
17 to define what the universe of appropriate
18 investments opportunities is and in this case
19 we are talking about asset classes.
20 So at the end of the day I guess it's in
21 virtually all the asset classes that you might
22 consider, but we will just confirm that there
23 aren't any other asset classes that we want to
24 make sure we are evaluating. We need to
25 establish a range of potential outcomes across

1 asset classes and what we are really saying
2 here, we need to think about expected risk of
3 return over various time frames for the range
4 of asset classes that we will be considering,
5 so Rocaton. And we have information here,
6 spent a lot of time thinking about what is a
7 reasonable set of expectations for different
8 capital markets, but we certainly don't have a
9 crystal ball and, therefore, we run a lot of
10 scenarios. We also get input from a lot of
11 outside sources to make sure that our
12 expectations are at least reasonable.
13 And then at the end of the day what we
14 are going to be doing is evaluating tradeoffs
15 between portfolios. We will together look at
16 a set of alternative portfolio allocations and
17 try to identify which portfolio mix is the
18 most appropriate in light of the risk and
19 return expectations for the pension fund.
20 There are a couple of principles,
21 fundamental principles of asset allocation
22 that are really important to highlight. The
23 first is the principle of diversification, so
24 that's not news to anyone. Here but what is
25 really important to recognize we think is that

1 simply calling an asset class something
2 different doesn't make it diversified. So the
3 fact is that we have U.S. equity and private
4 equity. Private equity is not really a
5 diversifier versus global developed market
6 equity. What it is is intended to be a return
7 enhancer, but as goes public equities so goes
8 private equity a few quarters later. So what
9 we try to do is think about diversification in
10 terms of where the sources of risk and return
11 are for different asset classes.
12 So to give you a simple example for U.S.
13 equity or for any equity asset class, most
14 important source of return and risk is
15 economic growth. As goes economic growth, so
16 goes the equity market over time. Now it
17 doesn't happen coincidentally, but it happens
18 with lags. Real interest rates of course are
19 the driver of fixed income returns, both TIPS
20 and noncore bonds. So that's the way we like
21 to think about diversification, what are the
22 primary drivers for the risk for asset
23 classes. Let's make sure we are
24 over-diversified across those sources of risk
25 and return. And having 20 different asset

1 classes that are labelled by different names
2 doesn't mean that we are well diversified. We
3 want to make sure we are looking at current
4 market evaluations and thinking about asset
5 allocation. And that's not because we believe
6 we have -- again, we have no crystal ball and
7 we also don't want to engage in tactical asset
8 allocation at the board level. We have some
9 managers who may do some of that, but we don't
10 want to do that. We want to develop the
11 strategic asset allocation, but we don't want
12 to invest blind.
13 We look at time horizons from 1 to 30
14 years in considering how we want to allocate
15 among asset classes and we want to be
16 cognizant of what current market evaluations
17 are when we allocate assets. And then
18 consistent with that point, we want to look at
19 multiple time horizons. Again we can't
20 forecast out what the next 12 months is going
21 to look like, but we can develop a reasonable
22 range of outcomes for different time horizons.
23 And we want to make sure that we are looking
24 at all those time horizons when -- if we were
25 doing an asset allocation study 15 or 20 years

1 ago we would have said, we are long-term
2 investors, we have a 30-year horizon, it
3 doesn't matter what the asset class valuation
4 is today, it doesn't matter what our
5 shorter-term expectations are because this is
6 a 30 or 40 or 50-year investment pool. But
7 the reality is you can only get to the 30 or
8 40-year horizon if you are able to live
9 through the one, five or ten-year horizon.
10 And we all have learned a lot over the past
11 decade, so we spent a lot of time looking at
12 the very long term as well as the shorter
13 term.
14 And then the last point that I want to
15 emphasize in the introduction is that the
16 asset allocation studies are a very useful
17 tool to think about allocated against
18 different asset classes and different regions
19 of the capital market, but it's not a useful
20 tool for thinking about how you want to
21 implement asset classes. So the decision
22 between passively and actively investing in an
23 asset class is not readily accomplished with
24 an asset allocation study.
25 In the asset allocation study we assume

1 asset class returns, beta returns, passive
2 returns if you want. We don't think about
3 active manager value added which is a little
4 bit of a conundrum because if you think about
5 some asset classes such as private equity, you
6 can't invest passively in private equity.
7 High yield you also really can't invest
8 passively. So what we do, therefore, in those
9 asset classes which we know we are going to
10 invest in actively, we try to think about what
11 is a reasonable premium above the public
12 capital markets in case of private equity,
13 what should we get paid for taking on
14 illiquidity. So that's a basic low-level
15 expectation for private equity, but we will
16 discuss whether we think we can -- there are
17 implementations considerations we can
18 certainly discuss.
19 What I think can't be accomplished is
20 it's very difficult to put in an expected
21 return for your active manager alpha within
22 asset classes like private equity and high
23 yield.
24 So with that unless there is any
25 questions and I am happy to be interrupted, we

1 can turn to investor specific considerations.
2 So we develop a set of capital market
3 assumptions that we try to use fairly
4 consistently across these asset allocation
5 studies, but every study that is done for a
6 portfolio should be very specific to that
7 sponsor's issues, concerns and objectives.
8 So some of the things we will be looking
9 at, some of the challenges that the pension
10 fund might be facing like any other large
11 institutional investor are noted on page 3.
12 First of all, liquidity. So the good news is
13 for the pension fund there are significant
14 payouts from the pension fund, but there are
15 also significant contributions and there is a
16 high level of liquidity that exists in the
17 pension fund today. So we don't think that
18 will be a particular concern, but we want to
19 pay attention to it. But that's not going to
20 be a limiting factor we don't think in the
21 case of the pension fund. Time horizon and
22 benefit payments, we have a very long time
23 horizon which would imply a higher risk
24 tolerance certainly than an investor who has a
25 much shorter time horizon. Statutory

1 limitations, we are paying attention to the
2 basket clause.
3 MR. GANTZ: Sorry to interrupt you, we
4 are internally because we are so close to the
5 limit on a policy basis and no doubt whatever
6 the asset allocation is likely to be very
7 close to that as well for the basket clause.
8 We are internally looking at dusting off some
9 of the areas of the statute that we had not
10 previously relied on, so internally our
11 counsel is looking at that and we will be
12 talking to you about those.
13 MR. ADLER: What's an example of that,
14 Martin?
15 MR. GANTZ: Private debt.
16 MR. ADLER: In other words, private debt
17 is part of the basket?
18 MR. GANTZ: It's complicated. We
19 consider it part of the basket, but in certain
20 cases it's not. So bank loans, for instance,
21 would be an example of that.
22 MR. EVANS: We may be able to get
23 certain fixed income assets outside of that.
24 MR. GANTZ: It's not game changing, but
25 it will help with room and space potentially,

1 given an asset allocation.
2 MS. MARCH: Can I ask as this study goes
3 on that we are kept informed through our
4 counsel. She is not here, but Renee is here.
5 That we be kept informed as to --
6 MR. GANTZ: We haven't brought it to any
7 of the system's counsel yet because we are
8 gathering the information also. We are also
9 talking to state and state Teachers. We want
10 to be consistent that their interpretation is
11 this. We want to check our interpretation.
12 MS. MARCH: Our system's counsel has a
13 lot of experience.
14 MR. GANTZ: Oh, I know that.
15 MS. PELLISH: So I am mindful of time,
16 but I just want to note that there are a
17 number of other specific considerations that
18 will be incorporated into the asset allocation
19 study including current capital market
20 expectations which are fairly low relative
21 certainly in the short term relative to the 7
22 percent of debt.
23 So let's turn to page 4, if I can.
24 Another something else that we will be talking
25 about a lot in the asset allocation study is

1 the performance of looking at different time
2 horizons and time horizon really matters for a
3 variety of reasons. One, expected returns
4 change based on the time horizon because of
5 course we are looking at where we are starting
6 today, but also the other fact is that the
7 range of potential outcomes shrinks over long
8 periods of time. So volatility -- actually,
9 this is something that I find compelling.
10 Volatility actually reduces by the square root
11 of time, so volatility shrinks over time
12 because returns are smooth as you experience
13 more periods of return. And so again we will
14 be looking at different time horizons because
15 you have to live through the five years to get
16 to the thirty years.
17 On page 5 we talk about evaluation and
18 what we do is again we are not -- we don't
19 have -- we don't have any sort of illusion
20 that we can accurately forecast returns over
21 any short period of time, but we do want to
22 pay attention to where interests rates are to
23 where PE ratios are to where bond spreads are
24 when we are recommending an agency as an asset
25 class. So you can see that here if you look

1 at the red area of these four boxes, it's
2 indicating whether that particular signal
3 indicates that the asset class is expensive
4 relative to history. U.S. treasuries look
5 relatively expensive. Yields are -- even
6 though they are rising, they are still very
7 low relative to history. U.S. PE ratios are
8 slightly higher than history so -- to making
9 U.S. look less attractive than non-U.S.
10 equities and bond spreads and break-even
11 inflation are roughly in the neutral zone.
12 MR. ADLER: So nothing is cheap.
13 MS. PELLISH: No, and that's -- that's
14 really the challenge. The cheapest -- and you
15 will see that in our expected returns. It
16 looks like the cheapest broad asset class
17 might be emerging markets, but also a very
18 volatile asset class.
19 I am going to skip page 6 and go to page
20 7 again in the interest of time. Page 6 says
21 that we will be looking at a wide array of
22 potential outcomes for both asset classes and
23 portfolio nexus. There are different risk
24 factors that we want to run scenarios analysis
25 for in the asset allocation study. So risks

1 are inflation, deflation, the risk that the
2 dollar becomes weak, weak economic growth,
3 market illiquidity and financial shocks.
4 These are all very significant risks that we
5 want to make sure we pay attention to. So,
6 again, what I am trying to highlight here is
7 that we are not simply creating a set of asset
8 class expectations and running an
9 optimization. We want to look at a wide array
10 of scenarios, talk about the range of
11 potential outcomes in different economic
12 environments and in different time periods,
13 and discuss with the board is this an
14 unacceptable outcome. We think this might be
15 a reasonable probability. If we run into this
16 scenario would that be an unacceptable outcome
17 and, therefore, this asset allocation would be
18 acceptable. So it's a very iterative
19 discussion.
20 MR. ORLANDO: Just can you explain to me
21 what the market illiquidity column, risk
22 mitigation strategy, consider plan's ability
23 to generate incremental returns by acting as a
24 liquidity provider means?
25 MS. PELLISH: Yes. So particularly in

1 the fixed income market, because of regulatory
2 reform I think it's particularly the ability
3 of the proprietary desk to act to provide
4 inventory. And improve market liquidity has
5 eroded and so there is value to be gained by
6 large institutional investors who have lots of
7 liquidity, as does the pension fund, to think
8 about providing liquidity to the fixed income
9 market which is essentially what we do in the
10 OFI program, right, in the opportunistic fixed
11 income program. So the plan's ability to
12 generate incremental returns by acting as a
13 liquidity provider is something that we should
14 continue to explore and think about how in a
15 market in which we expect low asset class
16 returns, perhaps this provides a slight edge.
17 MR. ORLANDO: Thanks.
18 MS. PELLISH: Sure. I want to turn to
19 pages 8 and 9, if I can, for a moment. This
20 gets to our forecast for major asset classes
21 being relatively low.
22 What we see on page 8 is the five-year
23 expected return for major asset classes as
24 well as different portfolio mixes.
25 And then on page 9 we see the 30-year

1 forecast return. So if you look at our
2 forecast for U.S. equity over the next five
3 years, you see it being somewhere between. So
4 this is the expected outcome, the 50
5 percentile somewhere between 3 and 4 percent,
6 very low historically. And I will tell you we
7 are not outliers, so maybe that means that
8 everyone is wrong. But I think given where
9 our U.S. equity market valuations are now,
10 yes, it's a sad statement. It's a very sad
11 statement given where U.S. equity market
12 valuations are. We have just seen the sixth
13 consecutive calendar rise in the U.S. equity
14 market. We are starting to see the rates
15 rise, interest rates rise. None of this bodes
16 well for the next five years. If you look at
17 the 30-year outcome, you will see a number
18 that's north of 36 percent. Again pretty far
19 away from the often-cited 10 percent very
20 long-term average return for U.S. equities
21 which is no longer accurate, but 10 percent is
22 sort of anchored in everyone's head I think.
23 So over 30 years we see more reason for
24 optimism. Even 10 we see more reason for
25 optimism, but we have to do an asset

1 allocation that makes sense over the next five
2 years as well.
3 MS. BEYER: Question.
4 MR. ADLER: Go ahead, Charlotte.
5 MS. BEYER: Thank you. I am just not
6 sure I understand the subtitle "Five-year
7 expected 50 percentile and downside first
8 percentile." I am just seeing one dot for
9 each of those things on both pages 8 and 9, so
10 can you help me understood what that title
11 means?
12 MS. PELLISH: So if you look at
13 horizontal what we have, the five-year
14 downside. The first percentile, so you will
15 see for U.S. equity. So we look at everything
16 over thousands of scenarios, so when we take
17 -- we take two data points. One is the
18 expected return and the other is volatility
19 and if you look at what we might think of as
20 the worst outcome.
21 MS. BEYER: I got it. I just didn't
22 read the chart correctly.
23 MS. PELLISH: I think importantly if you
24 look at the very worst outcome we can imagine
25 given our expectation of U.S. equity median

1 returns and expected risk, you can actually
2 realize an average annual return of minus 15
3 percent which would be awful. But that's --
4 you know, that is not outside the range of
5 probability. It's, you know, three standard
6 deviations, but we have lived through three
7 standard deviation events more often than
8 would be predicted.
9 MR. ADLER: What I find kind of shocking
10 about that chart on page 8 is that you are
11 forecasting that the 64 equity fixed, the
12 median outperforms, you know, the U.S. equity
13 median with obviously much less downside. I
14 mean, that's a very surprising relative spot.
15 MS. PELLISH: Yes. Well, what it tells
16 is there is actually some correlation benefit.
17 MR. ADLER: No, I understand. But you
18 would typically expect there to be. You know,
19 over a five-year period isn't a very long
20 period, but would typically expect the 50
21 percentile come with equity, you would -- the
22 excess of volatility, but higher.
23 MS. PELLISH: You would expect the curve
24 to be upwards sloping.
25 MR. ADLER: Yes. Anyway, that's

1 surprising.
2 MS. PELLISH: Yes, and it's confounded.
3 MR. ADLER: I mean, it's -- really what
4 you are essentially saying is that the equity
5 markets are fully priced at this point.
6 MS. PELLISH: And particularly in the
7 U.S. Yes, yes.
8 MR. ADLER: Yes, definitely.
9 MS. PELLISH: And the appendix contains
10 a lot of information about how we develop
11 these expectations as well as some more detail
12 than perhaps you would like about our process,
13 but with that I am going to conclude my
14 remarks.
15 Happy to discuss anything if you have
16 any questions.
17 MR. ADLER: Questions for Robin.
18 MS. BEYER: What do you mean when you
19 put quotation marks around "true
20 diversification"? What is in your mind false
21 diversification.
22 MS. PELLISH: So that goes back to the
23 statement that I am investing in ten asset
24 classes and think you are highly diversified.
25 So if you are investing in corporate debt and

1 U.S. debt, still very highly correlated.
2 MS. BEYER: Thank you.
3 MR. ADLER: Other questions for Robin?
4 Okay.
5 MR. EVANS: That concludes our public
6 agenda.
7 MR. ADLER: Okay, so I think a motion to
8 move into executive session would now be in
9 order.
10 MS. MARCH: I so move that we go into
11 executive session under Public Officer Law
12 Section 105 for the purpose of discussing
13 purchase and sales of securities and updates
14 on specific investment managers.
15 MR. ADLER: Thank you. Is there a
16 second?
17 MS. BEYER: Second.
18 MR. ADLER: Motion moved and seconded.
19 Any discussion. All in favor, please say aye.
20 Aye.
21 MS. BEYER: Aye.
22 MR. BROWN: Aye.
23 MS. MARCH: Aye.
24 MS. VICKERS: Aye.
25 MR. ORLANDO: Aye.

1 MR. KAZANSKY: Aye.
2 MR. ADLER: Opposed, abstentions?
3 So we now conclude the public session
4 and go into executive session. Why don't we
5 take a short break while we break down the
6 cameras and then we will start up with the
7 executive session.
8 (Recess taken.)
9 MR. ADLER: Okay. So I think we need a
10 motion to go back into public session. Is
11 there such a motion?
12 MS. MARCH: We move.
13 MR. ADLER: Do we have a second?
14 MS. BEYER: Second.
15 MR. ADLER: Moved and seconded. All in
16 favor of the motion to go back into public
17 session, please say aye.
18 MS. BEYER: Aye.
19 MR. BROWN: Aye.
20 MS. MARCH: Aye.
21 MS. VICKERS: Aye.
22 MR. ORLANDO: Aye.
23 MR. KAZANSKY: Aye.
24 MR. ADLER: Aye. Opposed, abstentions?
25 Okay. When Liz is ready, we will be

1 back in public session.
2 Okay. Could we get a report back from
3 the executive session, please?
4 MS. STANG: Certainly in the executive
5 session of the variable fund an update on an
6 upcoming survey was presented in the executive
7 session of the pension fund. Updates on a
8 manager and services provider was presented.
9 An annual pacing plan for opportunistic fixed
10 income, private equity, infrastructure and
11 real estate were presented. An investment in
12 ETI was presented. Consensus was reached
13 which will be announced at the appropriate
14 time. An update on the secondary market for
15 our private equity program was presented.
16 There was an update on the private equity
17 emerging manager program which was presented.
18 There was a plan for 2015 going forward for
19 the emerging managers in PE was presented,
20 discussed. Consensus was reached, which will
21 be announced at the appropriate time.
22 MR. ADLER: Okay, very good. Thank you.
23 Okay, so I think a motion to adjourn
24 would be in order.
25 MR. KAZANSKY: So moved.

1 MR. ADLER: Moved. Is there a second?
2 MS. MARCH: Seconded.
3 MR. ADLER: Moved and seconded. All in
4 favor of the motion to adjourn, please say
5 aye.
6 MS. BEYER: Aye.
7 MR. BROWN: Aye.
8 MS. MARCH: Aye.
9 MS. VICKERS: Aye.
10 MR. ORLANDO: Aye.
11 MR. KAZANSKY: Aye.
12 MR. ADLER: Aye. Opposed, abstentions?
13 The meeting is adjourned. Thank you very
14 much.
15 [Time noted: 12:58 p.m.]
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1 C E R T I F I C A T E

2 STATE OF NEW YORK)

3 : ss.

4 COUNTY OF QUEENS)

5

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 29th day of June, 2015.

14

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16 ______________________

17 YAFFA KAPLAN

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