

1 NEW YORK CITY TEACHERS' RETIREMENT SYSTEM
2 INVESTMENT MEETING

3 held on Thursday, November 15, 2012
4 at

5 335 Adams Street
6 Brooklyn, New York

7 ATTENDEES:

8 MELVYN AARONSON, Chairperson, Trustee, TRS
9 SANDRA MARCH, Trustee, TRS
10 MONA ROMAIN, Trustee, TRS
11 PATRICIA REILLY, TRS
12 LARRY SCHLOSS, Comptroller's Office, Trustee
13 JUSTIN HOLT, Finance
14 CAROLYN WOLPERT, Trustee, Finance
15 JANICE EMERY, Trustee, Finance
16 JOEL GILLER, TRS
17 MARC KATZ, TRS
18 LIZ SANCHEZ-PAZ, TRS
19 SUSAN STANG, TRS
20 JOHN BRIGHT, Comptroller's Office
21 JOHN DORSA, Comptroller's Office
22 DAVID JETER, Comptroller's Office
23 THADDEUS McTIGUE, Comptroller's Office
24 KATHY MARTINO, Comptroller's Office
25 BARRY MILLER, Comptroller's Office
YVONNE NELSON, Comptroller's Office
ROBERT C. NORTH, JR., Actuary
MORAIMA PARES, Comptroller's Office
ROBIN PELLISH, Rocaton
CHRIS LYON, Rocaton
RENEE PEARCE, Broome Law Group
INGA VAN EYSDEN, Corporation Counsel
ROBERTA UFFORD, Corporation Counsel

1 P R O C E E D I N G S

2 (10:30 a.m.)

3 MS. REILLY: Welcome to the November 15,
4 2012 investment meeting of the Teachers' Retirement
5 System for the City of New York. I'm going to start
6 with the roll call.

7 Melvyn Aaronson?

8 MR. AARONSON: Here.

9 MS. REILLY: Kathleen Grimm?

10 (No response.)

11 Larry Schloss?

12 MR. SCHLOSS: Here.

13 MS. REILLY: Sandra March?

14 MS. MARCH: Here.

15 MS. REILLY: Mona Romain?

16 MS. ROMAIN: Here.

17 MS. REILLY: We have a quorum.

18 I'd like to begin by thanking NYCERS for
19 hosting our investment meeting this morning and our
20 regular board meeting this afternoon. I'd also like to
21 thank them for hosting our staff at Long Island City
22 where we have our call center set up. We have clerical
23 and legal staff and a lot of our people are going to
24 Long Island City, and they are great hosts and we really
25 appreciate their help.

1 We also wanted to thank the Board of Ed
2 retirement system, because there we have a walk- in
3 center, so members can come in and receive applications
4 and talk to our walk-in center staff.

5 And also the Office of the Actuary, who's
6 hosting our retirement processing unit.

7 We really couldn't have done it all without
8 all the help of our colleagues here. And most of all,
9 I'd like to thank the board for all its support while
10 TRS is displaced because of Hurricane Sandy.

11 Also, the processing of all of our high
12 priority work is being done out of Manhasset, Long
13 Island, in a trailer. So our staff are very much
14 engaged and working very hard in doing the best we can
15 to continue to service our members.

16 CHAIRPERSON AARONSON: Thank you.

17 I'd like to echo the remarks about thanking
18 everybody. But I also want to add thanks to Patricia
19 Reilly for what she's doing. She has taken up the
20 leadership of the retirement system and has gotten it
21 going.

22 I have not yet been to the site out in Long
23 Island City, but I was at the site in Manhasset, New
24 York. And this was the first day of that site. We had
25 people from the retirement system who came from New

1 Jersey, Staten Island, Brooklyn, areas that were hard
2 hit by the storm, yet they were there, on their
3 computers, with their telephones working.

4 So I told my colleagues that day or the next
5 day when I came back, if there is ever anybody that has
6 a bad word to say about city workers, I will personally
7 have very, very serious problems with that -- and I mean
8 my Bronx temper -- with people who do that. These city
9 workers were just wonderful.

10 By the way, in addition to Patricia, the
11 other staff at the Teachers Retirement System also have
12 been working long hours and putting in a lot of extra
13 work. And so we really appreciate that very, very much.

14 Today, in the investment meeting, the first
15 part of the meeting will be the QPP public session.

16 Mr. Schloss?

17 MR. SCHLOSS: Thanks, Mel.

18 First I'll talk a little about the storm
19 from the Bureau of Asset Management's perspective. One,
20 we never closed. So the Comptroller's Office was open
21 throughout the storm. We never had a down minute. Even
22 though our BlackBerrys didn't work and we had shifts to
23 teleport on Staten Island, people came into the office.
24 The office didn't have power for a while, about a week.
25 Then we didn't have heat. We were in our jackets, but

1 everybody did a great job. That particular Wednesday
2 Thad came over to NYCERS to stamp some pension checks.

3 MR. McTIGUE: Yes.

4 MR. SCHLOSS: Above and beyond the call of
5 duty.

6 MR. McTIGUE: Thank you.

7 MR. SCHLOSS: Thad did an awesome job as
8 always.

9 The cash desk, during the week of the storm,
10 raised about \$2.2 billion of cash for the city, working
11 out of their homes, never missed a beat. And we raised
12 about \$350 million for the pension funds for payments,
13 as well capital calls.

14 So if you were in the outside world you
15 didn't know anything happened to BAM. Business just
16 kept going, spectacular. We funded all the benefit
17 checks, paid the checks. Again, if you were a pensioner
18 sitting in Florida or sitting in Brooklyn, everything
19 was fine as far as the pension was concerned, really
20 because staff did an awesome job.

21 We spoke to virtually all our managers, and
22 no impact on the managers, nothing of material, at
23 least.

24 Townsend spoke to all of our real estate
25 managers, with a little bit of damage here, a little bit

1 of damage there, but nothing material. So the pension
2 fund assets also came out fine.

3 That said, since the storm, we have been
4 trying to figure out and had a bunch of meetings on how
5 to take pension capital and redeploy it into the city.
6 We called ETI's normal business, which is actually, in
7 retrospect, it's good John Liu created separate groups,
8 because it needs separate focus.

9 On the one hand, there's a lot of people, a
10 lot of meetings to go to. And again, staff didn't have
11 a day job. But we've been thinking about the reality,
12 what would you like to do if you had \$125 billion and
13 your town had a storm? And if you can make money on
14 investments and help the city at the same time, you
15 should try to do that.

16 Again, people are worried about housing for
17 themselves, stuff like that. So we're trying to come up
18 with ideas for loans for small businesses, for second
19 mortgages, rehab mortgages, real estate, redevelopment
20 of things that were blown away, affordable housing,
21 regular apartments, infrastructure, as we get to the
22 infrastructure asset class.

23 So a lot of meetings. Don't have anything
24 to bring to you yet. But if you find anything or people
25 call up and say, "Hey, we'd like to help," or you have

1 some investment need, send them to us.

2 Again, this is when you are supposed to be
3 creative, do the right thing, A; and B, on a risk
4 adjusted basis, make a return.

5 So it's not like we give the money away, but
6 we do go up and down the capital structure from senior
7 mortgages all the way down to equity. To the extent we
8 can make investments in the city, so much the better.

9 So I'd like to think we can bring you
10 something to invest in in the next -- I hate to measure
11 in months, probably weeks is better, but I don't have
12 anything to chew on yet -- we will try to figure some
13 things out.

14 We don't have the staff to do it ourselves,
15 so we need managers. So we're out talking to people,
16 managers, saying, "Hey, let's think of a special program
17 for this." So, it's in process.

18 If you get some ideas, tell us. If people
19 come to you looking for how can we help, send them to us
20 and we will try to figure out a process and do things as
21 quickly as possible.

22 CHAIRPERSON AARONSON: Question. We have
23 the HIT program. Part of the HIT program is to make
24 available mortgages for city workers. I don't know if
25 they do refinance mortgages or shorter investments in

1 mortgages backed by the real estate.

2 Is there any discussion?

3 MR. SCHLOSS: We were having the discussion
4 with HIT before the storm. HIT is a national program.
5 We said, Why don't we invest more of our money in New
6 York City, A; and B, can you expand the New York City
7 exposure to put more money to work?

8 Then the storm came. So we are still
9 working with HIT on it. They have some rules and
10 regulations the way they are structured, making it
11 complicated. But they bring their own set of issues and
12 we have our set of issues. So we're trying to figure
13 something out.

14 CHAIRPERSON AARONSON: The part of the
15 program I'm talking about is the part where they already
16 make available to New York City employees mortgages.

17 MR. SCHLOSS: They are still doing that.

18 CHAIRPERSON AARONSON: So the adjustment in
19 that, to make available home equity loans instead of
20 long term mortgages, shorter term loans and stuff like
21 that; can we speak to them?

22 MR. SCHLOSS: We are speaking to them. We
23 had a meeting.

24 MS. MARTINO: We had a phone conversation
25 yesterday about that. They're exploring the possibility

1 of doing with the HIT home program they had, and seeing
2 what they could do in terms of helping homeowners.

3 CHAIRPERSON AARONSON: Thank you.

4 MS. MARCH: Question. Are we doing this
5 particular thing within the five boroughs or within the
6 State of New York?

7 MS. MARTINO: There have been discussions,
8 but they haven't been --

9 MS. MARCH: I think in some sense you may
10 want to do this with the State of New York. There are
11 city employees who do live in the metropolitan area.
12 And I would think that we should not eliminate the
13 ability for a city worker who would be eligible had they
14 been within the five boroughs or had been in Westchester
15 or Rockland or Nassau or Suffolk.

16 MR. SCHLOSS: It's a good idea. We tend to
17 focus on the five boroughs. We definitely can talk to
18 them about metro New York, maybe even New Jersey.

19 MS. MARCH: If there are city workers who
20 live in New Jersey -- then it should be where a city
21 worker lives, whether it's a little south of New Jersey
22 or a little north in Westchester and Rockland.

23 MR. SCHLOSS: Okay.

24 Anything else on Sandy?

25 MS. MARCH: One thing. I'd like to note

1 that my name is spelled with an "I."

2 (Laughter.)

3 MR. HOLT: I'd like to submit a request.

4 Could we have the Audit Committee perform a
5 review of BAM's operations and business presumptions
6 during the most recent disaster? The point being to
7 learn from this moment of distress. Hopefully
8 everything was okay, but where we performed well we can
9 redouble efforts, and hopefully learn from any
10 shortfalls.

11 MR. SCHLOSS: The Comptroller's Office is
12 working on that.

13 MS. ROMAIN: Which audit committee is doing
14 this?

15 MR. HOLT: The committee.

16 MS. ROMAIN: You're talking about five
17 systems operating out of BAM. You are saying the audit
18 committee --

19 MR. HOLT: For this board.

20 MS. ROMAIN: To check on the operations of
21 the Comptroller for all of the systems? For this
22 particular system?

23 MS. MARCH: I think if we were going to do
24 it for BAM, it should not be for this system. It should
25 be a discussion as to whether and how to proceed with

1 this. I don't know if the audit committee of this board
2 should be doing it.

3 MR. HOLT: What do you think would be more
4 appropriate?

5 MS. MARCH: We will think about it and let
6 you know.

7 MR. SCHLOSS: The Comptroller's Office, I
8 presume, like all offices of the city, will go through a
9 retrospective of each bureau's performance during the
10 crisis. We will do this through the ordinary course of
11 business.

12 MR. HOLT: Will there be a report after the
13 fact to the boards?

14 MR. SCHLOSS: No idea.

15 MR. HOLT: If we request it?

16 MR. SCHLOSS: No idea what it will entail.

17 MS. MARCH: It doesn't make sense to me that
18 we should break off the Teachers' Retirement System from
19 doing this. I entrust the fact that city government
20 will audit itself and know where to proceed. I'm not
21 prepared to say that the Teachers' Retirement System
22 Audit Committee should be auditing it.

23 CHAIRPERSON AARONSON: Or auditing the
24 Comptroller's Office.

25 MS. MARCH: I think the Comptroller's Office

1 has done a very good job in auditing the entire city.
2 So I think that kind of proposal makes no sense. I ask
3 Larry to think about what was said here and how we can
4 proceed with that.

5 MR. SCHLOSS: Sure; okay.

6 So we have September results to go through.

7 Again, here it is almost Thanksgiving, we're
8 giving old numbers. I'll be quick about them.

9 September was one of those months where the
10 Fed introduced QE3 and the ECB decided they were all in
11 and the markets rallied. There was a big rally in
12 September.

13 September was fine, October was choppy, and
14 since the election the markets have gone down. You
15 won't see those results until January, however.

16 Over all, the economy is slowly on the mend.
17 Everyone is talking about the fiscal cliff. To be
18 honest, I'm not that worried about the fiscal cliff, on
19 the theory of these are rational people elected by the
20 citizens of the United States.

21 (Laughter.)

22 CHAIRPERSON AARONSON: We should review the
23 CIO.

24 (Laughter.)

25 MR. SCHLOSS: I don't do politics, nor do I

1 aspire to.

2 That said, let me show how we did in
3 September. If you look at page 32, this is a 12 month.
4 Again, at the end of September, probably at the highest
5 ever for the fund. There's a longer term picture on the
6 next page, \$46 billion. It probably went down a little
7 in October, and has gone down probably in the 44s, if I
8 had to guess. Today the market was down, the U.S.
9 market was down over a percent yesterday.

10 If I look at the results; again September,
11 page 41, you can see in the far left hand column we're
12 up about 2 percent for the three month period, which is
13 the fiscal year. End of the first quarter up 4 and a
14 half percent.

15 Again, I think we're about even in October.
16 And then November people get some combination of anxious
17 about the fiscal cliff, selling things in front of a
18 potential increase in capital gains, so more sellers
19 taking tax rates.

20 In general, before the year end, the markets
21 will be choppy to the end of the year, but ultimately
22 things will work themselves out.

23 If you look at how the portfolio's set up on
24 page 36, we're inside all bands. We've got 1.2 percent
25 in cash. We basically don't have a lot of cash left.

1 We're a little underallocated in emerging
2 markets. And we're a little more than the median, in
3 the range for U.S. Equities. Again, I think next year
4 after we're off the fiscal cliff the markets will get
5 back fine and we'll be set up properly for that. Again,
6 we don't try to day trade with the fund.

7 If you want to glance at page 40 for a
8 second. Again, these are the returns for the month of
9 the markets. You can see at the top, the U.S. Equity
10 markets were up 2 to 3 percent. The international
11 markets were up 3 to 6, bond markets were up.

12 So again, September was a good month, things
13 were up. We made a couple of percent and gave some of
14 that back. But we're still in positive territory for
15 the fiscal year.

16 That might be all I have to say about
17 September.

18 Seema is not here, but I don't think there's
19 anything interesting to say about equity. Martin is not
20 here, and there's nothing interesting fixed income.
21 Yvonne has nothing to say about real estate.

22 (Laughter.)

23 And Barry will talk in executive session;
24 right, Barry?

25 MR. MILLER: Correct.

1 MR. SCHLOSS: So unless anybody wants to
2 talk about September results, they're good results,
3 they're up, we gave something back in October and gave
4 more back in November, and the rest of the year, that's
5 my forecast.

6 Did you want to do public -- anybody else --
7 or go right to executive session, Mr. Chairman?

8 CHAIRPERSON AARONSON: Do you want to do
9 public session?

10 MR. LYON: Five minutes.

11 MR. SCHLOSS: I'll hand it off. That
12 concludes the public session of the pension funds.

13 CHAIRPERSON AARONSON: You want to go now?

14 MR. LYON: A quick performance review. This
15 information is through September 30. This was sent out
16 a couple times.

17 The information on the first page is the
18 Variable A or diversified equity fund, \$9.8 billion at
19 quarter end. We'll do a deeper dive on quarterly
20 results at the next meeting in a few weeks, so I'll go
21 real fast.

22 For the month, the total fund was up about 2
23 and a half percent; not that different than the
24 benchmarks. Year to date results you're up almost 15
25 percent, and this is all net of fees. So pretty strong

1 returns through September 30.

2 We know that, as Larry just said, it's
3 choppy since then, but we're still in positive
4 territory, meaningfully, on a year to date estimated
5 basis.

6 There is also a handout for the other
7 Passport options, the bond fund. It was kind of a quiet
8 month, up 13 basis points, not that different than the
9 benchmark. Year to date results are in the positive 2
10 territory.

11 Flipping to the second page, you can see the
12 other three options, excluding the fixed. The
13 international had a strong month, up 3; year to date, up
14 11 and a half, say, in round numbers. The inflation
15 protection fund is up 2 and quarter. And year to date
16 has also been a very strong performing option, up to 12
17 percent.

18 And the socially responsive equity fund had
19 a positive month, a little more than a percent behind
20 its benchmark, and it struggled in terms of relative
21 performance year to date, so an 8.6 return through
22 September 30. Good in absolute terms, but relative to
23 other options in the benchmark, has been a slightly
24 disappointing period.

25 Lastly, we have a handout which is a little

1 less fresh than normal, but benchmark performance
2 through October. Larry largely covered that. But the
3 stats are here.

4 Any questions?

5 That's everything we have for the public
6 session for the Passport funds.

7 CHAIRPERSON AARONSON: Okay. That takes us
8 to the executive session of the pension fund.

9 MS. MARCH: I make a motion that we go into
10 executive session under Public Officer's Law 105 for
11 purposes of discussion of sales and securities.

12 CHAIRPERSON AARONSON: Do I hear a second?

13 MS. ROMAIN: Second.

14 CHAIRPERSON AARONSON: Any discussion?

15 All those in favor?

16 (A chorus of "Ayes.")

17 Any opposed?

18 We're now in executive session.

19

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

21

22 CHAIRPERSON AARONSON: I think we are ready
23 to move back into regular session.

24 MS. MARCH: I make a motion to move out of
25 executive session and back into public session.

1 MR. SCHLOSS: Second.

2 CHAIRPERSON AARONSON: Discussion?

3 There being no discussion, we are now back
4 in general session.

5 Susan, would you please report what we did?

6 MS. STANG: In the executive session of the
7 pension fund there was a presentation on an ETI
8 investment. Consensus was reached, which will be
9 announced at the appropriate time.

10 There was a presentation on a private equity
11 investment. Consensus was reached, which will be
12 announced at the appropriate time.

13 And there was an update on a private equity
14 investment. Consensus was reached, which will be
15 announced at the appropriate time.

16 In the executive session of the variable
17 fund, there was a discussion of an investment manager.
18 Consensus was reached, which will be announced at the
19 appropriate time.

20 CHAIRPERSON AARONSON: Thank you very much.

21 Any other business before us?

22 Is there a motion to adjourn?

23 MS. MARCH: Motion.

24 MS. ROMAIN: Second.

25 CHAIRPERSON AARONSON: Any opposition?

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1 Seeing none, we are adjourned.

2 (Time noted: 12:01 p.m.)

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I, Jeffrey Shapiro, a Shorthand Reporter and Notary Public, within and for the State of New York, do hereby certify that I reported the proceedings in the within-entitled matter, on Thursday, November 15, 2012, at the offices of NYCERS, 335 Adams Street, Brooklyn, New York, and that this is an accurate transcription of these proceedings.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of _____, 2012.

JEFFREY SHAPIRO