NEW YORK CITY TEACHERS' RETIREMENT SYSTEM
INVESTMENT MEETING
held on Thursday, December 1, 2011
at
55 Water Street
New York, New York

ATTENDEES:
MELVYN AARONSON, Chairperson, Trustee
SANDRA MARCH, Trustee
MONA ROMAIN, Trustee
NELSON SERRANO, Executive Director, TRS
LARRY SCHLOSS, Trustee, Comptroller's Office
JAMIE SMARR, Trustee
JANICE EMERY, Mayor's Office
THADDEUS McTIGUE, Comptroller's Office
MARTIN GANTZ, Comptroller's Office
JOEL GILLER, Comptroller's Office
SEEMA HINGORANI, Comptroller's Office
JOHN MERSEBURG, Comptroller's Office
KATHY MARTINO, Comptroller's Office
BARRY MILLER, Comptroller's Office
YVONNE NELSON, Comptroller's Office
MORAIMA PARES, Comptroller's Office
VICTORIA HUI, Comptroller's Office
TATIANA, Comptroller's Office
MARC KATZ, TRS
ROBERT RAUCCI, TRS
SUSAN STANG, TRS
ROBERT C. NORTH, JR., Actuary
LIZ SANCHEZ-PAZ, TRS
CHRIS LYON, Rocaton
ROBERTA UFFORD, Counsel
STEVE BYRNES, Townsend
SARAH CACHAT, Townsend
MICHAEL KOENIG, Hamilton Lane
CORINA SYLVIA, Hamilton Lane

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P R O C E E D I N G S

(Time noted: 10:10 a.m.)

CHAIRPERSON AARONSON: I'd like to get the meeting starting promptly.

MR. SERRANO: Good morning. We'll begin the December 1, 2011 meeting of the Teachers' Retirement Board by calling the roll.

Melvyn Aaronson?

CHAIRPERSON AARONSON: Here.

MR. SERRANO: Kathleen Grimm?

(No response.)

Note that she is not present.

Sandra March?

MS. MARCH: Here.

MR. SERRANO: Janice Emery?

MS. EMERY: Here.

MR. SERRANO: Lisette Nieves?

(No response.)

Note that she is not present.

Mona Romain?

MS. ROMAIN: Present.

MR. SERRANO: And Larry Schloss?

MR. SCHLOSS: Present.

Mr. SERRANO: Okay. We have a quorum.

You may continue.

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CHAIRPERSON AARONSON: This is the December 1 investment meeting of the Teachers' Retirement system. And we have a tentative public agenda that we're going to deal with, first from the variable passport funds. And could we start that, please, Chris?

MR. SCHLOSS: Do you want to start with me? Start with the pension funds. If that's all right with you, Mr. Chairman?

CHAIRPERSON AARONSON: It's all right with me, Mr. CIO.

MR. SCHLOSS: Okay. Martin, do you want to go to the first quater -- first quarter results?

MR. GANTZ: Yes. So, we have the quarterly report. If anyone needs extra copies, we have some over here.

So, just by way of background, the September quarter comes after a very strong fiscal year that we had in June. And the quarter, as you know, had very heightened volatility. There was a number of serious concerns that market participants were worried about. I'll name of few of them.

Obviously, we continued with sovereign debts, the debt crisis in Europe. In fact, in the summer there was concern based on the economic data that was coming out about a possible U.S. slowdown. And of

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course, in late July or in August, there was the issue of where the debt ceiling of a possible U.S. Treasury default. And then we had the actual downgrade of the U.S. Sovereign Treasuries.

So, we saw a big flight to safety trades during the quarter. U.S. markets for the quarter, as we measured the Russell 3000, were down more than 15 percent; with large cap a little bit ahead of small cap, so I think they were all down work in the double digits.

Non-U.S. Equity markets fared worse, the EAFE index was down 19 percent, and emerging markets were down more than 20 percent.

The flight to quality extended to high-yield bonds, which of course are below investment grade, and those were down about 4 percent. The positive numbers you are going to see in this report are in the investment grade fixed income world. Investment grade fixed income, especially U.S. Treasuries, did very well, not part of the flight to quality.

Over all, if you turn to page 9, you will see that the fund was down 9.55 percent for this quarter. That was ahead of the policy benchmark. The trailing one year returns were still positive at 2.42 percent, and that was also ahead of the policy benchmark. And I'll get into that in just a moment.

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The value of the fund as of September 30 was 38.7. We'll go through October in a bit. October was a very good month. You will see that the numbers came up. After October, November as well.

We have two pages following this, pages 10 and 11, that show on top the pie chart with the assets, and then on the bottom what the mix is versus the policy.

Page 10 shows versus the old asset allocations. And as you know, the board adopted the new asset allocation policies that we'll talk later on, on the agenda, after the rebalancing ranges. Those are the brackets. So, the brackets that you see on page 11 are likely to be amended and you'll see those changes next month as we implement whatever decisions are made.

And obviously, if you turn to page 11, we'll see that we're underweight in emerging market equities and real estate; and we're underweight convertible bonds and opportunistic fixed income. And as you know, we're working to putting money in those spaces as well.

Turn to page 12. This starts several pages of performance attribution for, at least page 12, the quarter. And while the numbers are negative, and we don't like to see negative numbers, we break it down into the allocation effect and the management effect.

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The allocation effect refers to how the fund did, because we are over or underweight versus policy; the management effect refers to how the managers themselves did.

And as you see, the allocation effect was positive 69 basis points, in large part to the high cash balance that we've been talking about over the last few months; and as of September 30 was at 8.7 percent in a down market, and cash obviously helps, and effectively did what it was supposed to do. And up market cash is a drag on performance, but effectively it is a buffer and a tail risk and did its job in a down market.

Having said that, a little later we'll discuss how we're deploying the cash balance to bring it back down.

Let's turn to page 13, that also helped for the one year results, as well. One year results were, first of all, positive numbers, but were well ahead of the benchmark because of the managers as well as the allocation effect.

And the three year number starts moving numbers out. Although, over all, we were 25 basis points ahead, returning 423.

Turn to pages 16 and 17, it shows Teachers versus large public funds. For the quarter, the result

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was 9.55 on page 16. But let us turn to page 17. And it is sort of in the middle of the page. This is where we show year by year -- annualized, one year, three years, four years and so on, how the fund has done.

And the most recent year, the 242 -- while it's a slight positive, ranks in the top half of the 42nd percentile, and beating the benchmark primarily because of the cash helped, because the benchmark itself was in the 30th percentile. So, was definitely positive, and it certainly helped the longer term numbers, which are safely in the second quartile for 40 years, and below the medium when you go beyond that.

Unless there are questions, I'll turn it over to Seema for some information about the equity portfolio.

MS. HINGORANI: Thanks, Martin. If you can turn to page 20. This breaks out the domestic equity asset allocation. Now, I'll point to the index return column, significantly negative numbers for the quarter are pretty much across the board. And then you will see the actual returns there, and I can point out a couple of these differences.

So, the emerging managers piece underperformed by about 350 basis points.

The outperformance that will be in the next

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area in small cap active, you actually have Walden, which did very well, despite small cap having a tougher time.

If you then turn to page 28, it shows you the same type of diagram, which is the international equity allocation. Again, I'll point you to the column index return, so you can see it is actually a worse U.S. market and emerging markets. If you look at our actual returns they've been different.

There's a couple of things to point out in terms of the value; outperforming by 180 basis points there. And that was really Mondrian, which had a strong quarter.

If you go down a few more rows, you can see the non-U.S. activist, which is underperforming by about 400 basis points. And that was really Governance for Owners. In the quarter, about the last 12 months, for Teachers, they have actually outperformed. So there's nothing to be really about concerned there.

And then if you turn to page 29, this will show you a little more history of the markets. So, you can see in the quarter in these first several columns, the overall portfolio outperforms the index by about 130 basis points.

And if you look at the trailing 12-month

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period, the portfolio of the Teachers would actually outperformed by about 300 basis points relative to the benchmark. And that is really it for the equities.

And now back to Martin.

MR. GANTZ: Okay. Fixed income starts on page 35. As of September 30, which of course was a low point in the market, $13.4 billion was allocated, or invested I should say, in fixed income; and the largest slice will show in green. And that's the investment grade Core+5 program, and more than 52 percent or exactly 52 percent was the cash balance, which we'll talk about later.

The next page breaks down the Core+5 into the three main sectors. A couple of items to note. The overweight/underweight column of the underweight Treasuries over the spread sectors, the index natural returns and the difference. While each of the sectors managers slightly underperformed the benchmarks, all the returns were positive. And when you see in the Treasury agency that the returns were approximately 13 percent; whenever you see a quarter of Treasuries returning 13 percent, that's a very clear sign of a flight to quality.

Treasuries went from about 3 percent down to below 2 percent.

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MS. EMERY: May I ask the reason for the underweight in Treasuries in the portfolio?

MR. GANTZ: The reason for the underweight in Treasuries in the portfolio is due to -- what we see as, going forward, the asymmetric return pattern in Treasuries, where it's now a limited upside to Treasuries; and we feel much more downside as rates go up.

And when we were raising cash, that was the buffer that we used as well for the downside, and Treasuries were also at the downside.

So, in this case, the underweight hurt in October, it would have helped. And over time will be getting back to the policy weights. When Treasury rates go back up, we'll be buying Treasury rates; when they go down, we'll sell.

MS. EMERY: Thank you.

MR. GANTZ: Putting it all together on the next page, we see how the program for the quarter is -- again, these are just about the only positive numbers you can see. The returns were just short of 4 percent behind the policy benchmark, partially because of the underweight to Treasuries, and also because of the managers here underperforming slightly.

For the year, however, the number was 619,

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just behind the benchmark; and the three-year number was at 971. Remember, the three-year number includes now the downturn that started in September of 2008. Even the long term numbers are now above 7 percent, either slightly below or slightly above the benchmark.

And an important part of this page as I mentioned in previous quarters, is about the volatility chart on the bottom. You've heard in these returns with 4 to 5 percent volatility; whereas equities are in teens in volatility.

TIPS are on the next page, page 38. While you saw Treasuries on the previous page returning, these are nominal Treasuries returning about 13 percent. TIPS for the quarter returned about 4 1/2 percent. Our managers slightly beat the benchmark at 480. And for the year returning 919; this is behind benchmark of 987.

We now have a six-year record and returns to 640; slightly more volatility in Treasuries. Over all, the reason of Core+5 has lower volatility is mortgages have roughly 2 or 3 percent volatility, and I think now TIPS had similar volatility to Treasuries, given their durations.

High Yield is on page 39. This is obviously below investment grade, so it takes risky assets and the flight to quality, assets were sold. And because of the

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over-the-counter deal in the market, liquidity dried up. So, the returns were negative. It's not negative as your equity returns as we would expect. The returns were minus 478 behind the benchmark of 93.99. For the year, the number is still positive, and for the three years, which includes again the downturn, is up over 10 percent and longer term as well; since inception 6, 7 and nearly 8 percent ahead of benchmark.

Convertible Bonds are page 40. The policy is -- was 1 percent and increasing. The returns were negative for the quarter, because obviously convertible bonds have a lot of equity sensitivity to them. Our rule of thumb is about 70 percent of the upside of equities to see in convertible bonds, with less of the downside.

In this down market, the managers did outperform the benchmark shown in yellow by over 100 basis points. This is a pattern that we've seen for the program, and down in flat markets, though managers generally do well versus the benchmark and in boom markets generally don't do as well as the benchmark. And we now have the three-year number, and the managers are just below the policy benchmark that we show their volatility, is in the low teens.

And then opportunistic fixed income on

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page 41. As you know, we're working very hard to increase this allocation. The returns are -- as you see here on the blue, are negative. Part of that is because some of distressed bonds obviously are priced down, and the risk is in the flight to quality. But also there are some lagging effects as well for the year.

The returns were just shy of 10 percent and for three years were 12.02. And Kathy Martino is here to talk about our economic part of the investment program.

MS. MARTINO: Good morning.

The portfolio is shown. And while it underperformed in the shorter period, it performed as we expected, the portfolio, and outperformed the benchmark for all of the longer periods. That's all there is to say on that.

Your collateral benefits start on page 7 in the booklet. And I just added a chart from the AFL-CIO Housing Investment Trust that I really liked.

(Indicating.)

Which shows where they have invested. And actually, we're going to work on one that shows all your investments. I wanted to put that out there.

Any questions?

MS. NELSON: Moving on to real estate, which

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begins on page 17 of the big book. We're going to go over performance highlights in the second quarter, 2011. Another good quarter in terms of performance. This represents the 4th quarter that the TRS portfolio outperforms the benchmark of the NCREIF Odyssey index on a net basis.

For the second quarter, the TRS portfolio, we have returns of 7.2 percent, 280 basis points ahead of the Odyssey benchmark on an after net basis of 4.4 percent.

As of the second quarter, the market value of the portfolio was $661 million. We have about $380 million we have yet to fund; altogether $1.04 billion.

If you look down below, it trends out the performance over the near term, and over extended periods all the way through since inception.

The Teacher real estate portfolio has outperformed the benchmark in all periods, with the exception of the three-year period that represents the downturn. There is a real estate recovery in slow, and very vulnerable to the kind of external shock that's happening domestically and globally on a macroeconomic basis.

But if I would just kind of address the trends that we're seeing in real estate, we're still

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seeing that flight to quality that we've been talking about, which is essentially run up the prices on core profits, particularly in gateway cities like New York, DC and San Francisco.

Another dynamic is that we have very, very little supply coming online. And also, there is some modest demand. In combination, we kind of think in the near term that we might have rental growth. But, however, investors are lacking confidence in what's going on today.

So it's kind of a real estate recovery. But we are definitely on the right path.

Just turning to the page 19, it just kind of sets forth the portfolio composition. The consultant has noted here that the allocation is 5 percent. Of course, the board approved the increase in the allocation of real estate to 6 percent, and that would be reflected in the following report.

As this reads, the allocation is simply $1 billion. On a policy basis, the portfolio has no less than 40 percent in the core strategy; and similarly no less than 40 percent in the noncore strategies.

As we sit here today, on a funded and committed basis, the Teacher's portfolio is 42 percent core and 58 percent noncore. That noncore also includes

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emerging managers, the number that I talked about. So, essentially, Teachers has 33 investments in real estate with 25 managers.

And if you would turn over to page 20, I just want to kind of go over the important risk metrics that we highlighted in terms of portfolio compliance. Again, the performance benchmark for the program outperformed the Odyssey over a five-year period. And we have done that. Teachers portfolio earned a 2.1 percent return versus the Odyssey of negative 1.9, outperformance of 300 basis points.

We talked about the portfolio composition in the line at 42 percent core and 58 noncore. The next report will reflect that the target allocation increased 6 percent. Diversification is well within bounds. The leverage at 50 percent is slightly over at 50.8 percent. But I would note that the policy actually talks about the hard cap being disappeared, once the portfolio is 80 percent invested. And right now, we're under 2 percent at this particular point.

In terms of manager exposure, we're well within those bounds, as well.

And the last page shows the portfolio diversification to real estate in terms of property type and geography. We are about 4 percent international at

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this point.

Any questions?

CHAIRPERSON AARONSON: I just want to acknowledge that Trustee Smarr is here.

MR. SMARR: Thank you, Mel.

MR. MILLER: And with that, we will switch over to private equity. So private equity second quarter was a good quarter for the asset class. We looked at the deal volume, again. The total is on page 26 in the big book. The total was 674 deals completed in the second quarter, aggregate value of roughly $76 billion, the highest level since the second quarter of 2008, where there were 713 deals with a value of roughly $80 billion.

If you look at it kind of quarter over quarter, so second quarter to first quarter, deal value, deal size, increased 50 percent. It's really an enormous increase for capital being put out. Deal values -- deal values greater than a billion dollars increased significantly, with 21 deals that were executed compared to the first quarter of 13.

If we look at, on the fund raising side, since 2009 to 2010 it was a flat year for fundraising, roughly $177 billion raise.

If we look at this year and we add in this

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quarter, if we try to annualize it going forward, it looks like this year is roughly $235 billion raise. And moving in the right direction of the fund raising side. Although when you look back to the first quarter, clearly there are a lot of funds in the market, people want to raise a lot of money. And while no one likes to see people fail, it's important that certain private equity funds just aren't ready for the marketplace. So it's good for private equity in general.

Exit activity, and this would be reflected as we talk a little bit later about the Teacher's portfolio. Distributions continue to rise, what people want to hear. Distribution pace, we looked at the overall market. I feel a window had opened up, shut recently, but we looked at an exit standpoint. First quarter, $77 billion worth of exits; second quarter, $120 billion. So moving in the right direction.

The last thing I would mention, if you look at the overall private equity landscape today, that there continues to be an enormous amount of funds in the markets, as touched on before. And the good the news is that good funds are being raised, and funds that are kind of second or third tier funds are having a challenge. So, all know that it's a good news.

We go now to the overall portfolio for

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Teachers. So by way of reference, the previous target from private equity is 4 percent, that was increased to 6 percent. And today the program sits at is 4.9 percent.

If we look at the portfolio, it's 126 funds, 86 GPs, it's got a market value today of roughly $2 billion. If you look at the IRR, the IRR is moving in the right direction, from 8.79 percent to 9.38 percent. And the multiple has gone up from 1.2 to 1.3, clearly moving in the right direction.

We touched on before what's been happening in the marketplace. And we see the distribution pace. The second quarter continuing on the trend from the first quarter, distributions outpaced contributions.

From the commitment standpoint, the system made really four new commitments. EQT, which was closed on June 30, as well as the subsequent closing fund of BC Partners, and Access Secondary Fund 5.

We looked at it from a benchmark standpoint, and it's really the same comments that I made before, which is that the fund continues to increase with regard to returns. The benchmarking is a little challenge to work out. So, if we look at it today, the venture economics, the pool of IRR which is the policy benchmark, today is 6.12 percent. So the private equity

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portfolio was outpacing that. But the discussion we had each quarter -- and I'll make the same comments about them each quarter -- when we look at the benchmark, the benchmark is probably a lower benchmark than we'd like to see. It's probably the benchmark should be more of a top quartile benchmark. Again, people wake up in the morning and say, I don't want to be average, it may not be the best, but I want to be in the group that is the best. So we will continue to look at that and we'll come back at a later time to discuss the benchmark.

With regard to the public benchmark, by way of reference to the Russell 3,000 plus 500, we continue to underperform that, and that will take a little bit of time to get out of the way for that.

The last two comments I would make, one is the contributions versus distributions, again, to put the numbers. The second quarter, put in about $100 million, took out about 104; so generating a net positive of cash generated, that clearly is an important trend.

Year over IRR 22.77 percent, so while a great number, private equity is long term, so we really need to look at the 10 and the 12 year returns.

Last two things I would mention is that, if we look at the overall portfolio a little bit of looking

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into the third quarter, distribution pace continues to outpace contributions, seeing the trend move in the right direction.

I would leave that, if you don't have any questions, or turn it back over to Larry.

MR. SCHLOSS: I'll take the ball back.

Any other questions for Barry?

Good. So, let's go to the month. That gets us through September, and now we'll do October.

I guess we can skip through the economic slides. We're kind of in an economic pause. If you want to be nice we'll call it a pause. Unemployment is stuck at 9 percent; it's not really expanding. Prices are still going down.

So, let's go to page 21. So, on 21, we still have the VIX, which is volatility in equity markets elevated. As Martin mentioned, it's been this way since August for a variety of reasons, primarily the euro and the dollar and the U.S. government having their own set of very different issues, nonetheless.

That volatility, if you go to next page, the Fed has been continually trying to keep rates down and somewhere along the way, it's probably in October, I think they announced the operation Twist.

Twist was planned to get the longer end of

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the Treasury curve down. So, if we look at the white line, it's the current Treasury curve and the pumpkin line, seasonally pumpkin, is the beginning of the year. So, clearly the curve has shifted down, part of the flight to quality, but sort of the seven to ten-year piece is the Fed working on Operation Twist.

And again, they continue to say rates would be down for the foreseeable future, call it a year, year and a half.

If you look on page 23, that manifests in the ten year rate, which is bouncing around 2 percent. In general, I would tell you when it goes below 2 percent, there's more heightened level of crisis going on; and when it's above 2 percent, people are a little calmer. So today, since all the monetary authorities in the country said we're going to flood the world with liquidity, it's bounced back up to about 210 to 212. If you went to back to last Friday, it was down around 190.

So it's just bouncing around, and primarily the dominating effect is what's going on in Europe and they just can't seem to get their together in a timely manner to finish it.

So, if you go to page 24, we have a flight to quality spreads wide and high yield, spreads widened, you can see that. Now it's 704. You may recall we sold

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a bunch of high yield bonds probably at the bottom of that, around 400, which is good to kept it in cash and we did not reinvest it.

Going to page 25, corporate profits are doing quite well. All things considered, for the muzzled economy, and the bad news is they are making profits by keeping people unemployed. So it hurts on the unemployment but the profits are high. So, you can see that is a blue line, the 12.8 is the trailing SPPE. A normal PE is probably 15-ish, so stocks are cheap. We'll get back to that in a moment.

You can see on page 26, the blue line is the path out of the current recession. So again, it's the second best in the last 30 years. So, profits are up, but jobs are not.

The next page is 27; again, where the markets, the top is the Russell 3000, second is EAFE, the third is Emerging Markets. Again, pretty reasonable equity crisis, if you don't mind a volatility and the ride, which we have going on right now.

The same thing on page 28, the large cap, mid-cap and small cap.

On page 29, you can see the volatility again, and the white is the Russell 3000 EAFE and then emerging markets. The worse part of it was the end of

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September. If you remember, we have bad quarter but we did say, hey, October will be better. Sure enough October was better. So, you guys have nice better numbers this month. November is sort of down, but we will get to that in a moment.

So, if you go to page 31, sort of the 64 dollar question -- where are we? End of October we were down 3.4 percent from the end of the fiscal year, which I would tell you, all things considered, is pretty good, although we always like it to be up. But without losing much money during this volatility, I think everybody -- all the managers in aggregate did pretty well.

So, as it stands now, we are $41.4 billion off the peak of about 42.8. We expect to be down a little bit, the month that just ended yesterday, north of 40, probably south of 41, somewhere in there. Still not too bad.

If you look on page 33 -- more importantly, go to page 34. So, again, we're moving from 33 asset allocation to 34, and we're switching this asset mix, A, as we speak, but probably over the next 12 months. We could see the cash is 7.1 percent as of the end of October. Since then, we put about a quarter of 1 percent into emerging market equities. We put about a half of 1 percent into high yield and about half of 1

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percent into converts. So, take another 1 quarter percent off this number, get to about 6 percent cash. We're also putting 1 percent more to high yield, so because of some denominator effect, that will get us down to about a little less than 5 percent cash.

You may recall we've approved about 3 percent of the fund going into opportunistic fixed income. We haven't documented that yet, so we got this money wait for these managers. Martin assured me by the end of the year we'll have a bunch of those managers up and going, sets 3 percent of the fund.

And we're going to talk a little later today about the conclusion of our emerging market equities RFP. So there's a plan basically in place to get us pretty much fully invested again over the next period of time.

So, the cash will take care of itself. You can see where we are now, a little overallocated into the U.S. equities, moving into the new range. So, again, nothing too dramatic; overallocated EAFE, underallocated emerging markets. But again, the emerging markets, the underallocation is going to go away.

And you can see the chartreuse or pink number. The minus 4 percent is the opportunistic fix

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income, underallocated. But again, 3 percent is already identified where it is going, so we are less concerned with that. So, we are kind of working our way into this new asset allocation.

If we go page 36, you can see, again, the markets went up well.

If we go to page 37, and look at the far left hand column, you can see November was a great month. For the equity market, they were 10 to 11 percent no matter where you were in the globe. That's the first two buckets. And bond markets were kind of flat. So again, October was good, and how that translates to us, go back to page 36. The one month number for October, we were up almost 7 percent, all in all. And up to that 7 percent increase in October -- so this is July 1st, only being down 3.4 percent. And again, that's on the heels of being up 23.3 percent for the prior fiscal year.

Just a quick snapshot into the month that just ended yesterday. I think we're going to find, based on yesterday's ridiculously too good markets, that the U.S. indices are about flat. EAFE is down 4 or 5 percent, emerging market equity down about 6 or 7 percent. So, I'd guess we're probably down 2 percent maybe, when you add it all up, maybe last month. But

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again, I think we'll go for probably 41 and change, to 40 and change. When you add it all up we'll come back next month to see if that's how we did.

The rest is all individual managers stuff. Martin or Seema, do you have anything to mention specifically about managers' performers?

MR. GANTZ: Not at this time.

MR. SCHLOSS: Yvonne? Barry?

MS. NELSON: No.

MR. SCHLOSS: Okay. That ends it. It was a good month but it was on the tail of a bad month, so we'll just have choppiness, the choppiness is going to continue. As you may recall, the super duper committee in Washington came up with nothing. So that's going to keep dragging. The euro is not going anywhere, that's going to keep dragging.

So we'll go back to the VIX chart, we're going to stay high volatility. We've got this cash, we got a plan for the cash, but we're not in any hurry to execute the plan, because things are very volatile. We're trying to put the cash out when there are dips in the volatility. And otherwise, we're going to work our way slowly with the cash.

Any questions?

That ends that. And then we have some

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business. The business is our continued rebalancing ranges on asset allocation, which I will hand it over to Rocaton.

MR. LYON: Good morning. We are passing out an updated version. For those of you who have read it, this was not substantially different. Some clarifying comments were added to that, and we added some examples and tried to bring the proposal policy to life, which we're coming around to right now.

(Indicating.)

And if everyone has a copy we will dive right into it.

As you recall, this is not the first time, and in recent months we've been discussing rebalancing, but hopefully the last time, because I'm very confident that we have something that everyone will find clear and practical and an actionable goal of rebalancing policy. Those who are implementing it, it needs to be clear instruction; those who are monitoring it, they need to be able to monitor it, to understand what is going on and know that everything is happening within the parameters.

But it also needs to be practical because, for a variety reasons, it may not be appropriate or possible but always in our targets. And we have

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conflicting demands and needs, to be able to have the right policy to take into account.

So, we feel that what we are proposing today takes into account a lot of feedback received at, not only in the prior meeting, but in subsequent discussions with various parties. It's all been very helpful in coming up with something that I think fits the definition of being clear, practical and actionable.

So, with that, rather than dive right into the numbers, even though we heard some of this before, since aspects or nuances have evolved, we're going to present it.

So, if you have any questions.

On page 2, the first thing is that these targets have already been established. That's not really what is up for discussion today. We are talking about ranging the mechanics around rebalancing. And one of the things we need to consider is illiquid classes. We are not always at target and if we ever get the target, we'll only be there for a moment in time, because things would be appreciate or depreciate. And we will be over or under the target in those categories.

And as it pertains to illiquid categories, there are two important things we're going to keep in mind. One, we're not trying to force a fire sale just

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because we're overweight. But two, we also try to compensate for the over/underweight, because we need guidelines -- the concept of an adjusted target, used for rebalancing purposes, as to how to allocate to that or compensate for that amount that was over or under target, to be illiquid.

And finally, on the illiquid, when you see a range, the range has a higher end to sell. Or if you fall below the bottom end, to keep from no matter what. Of course being deliberate, the ranges as they pertain to illiquid are guides. And if you're way below the range, then you should be revisiting your pacing analysis and questioning maybe why aren't there more opportunities being presented to you?

And if you're way above the range, then you should be very deliberate before making a commitment, because there may be really compelling opportunities that you say are appropriate, to make certain commitments -- but that's the point, to be going down, the pacing. So that's how interpreting the ranges as it pertains to assets.

The second thing was about the public market allocations. And the point here is that the public market allocations, when we come up with any adjusted target, we will adjust the public market allocations to

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compensate for whatever asset class or asset classes have a similar risk profile to the illiquid categories.

So, the other thing that this allows us to do is have the asset allocation, to keep in mind the overall risk profile that you are intending when setting the target allocations in the first place.

So, for instance, if you combine together all of the public equity risk for the private equity, there are certain amounts that we broadly call equity risk that we had in mind. And so by adjusting these target allocations, taking into account the over and underweight, we can try to do very broad brush strokes of risk.

On page 3 we have a couple other points. There is not a strategic target permanent allocation to cash. It's almost impossible that we never have cash. At points in time we had cash for a variety of different reasons, including (unclear) and the info that we received from the members and other contributions, and through transaction and transitional activity within the funds.

And of course, that we can lead to an accumulation of cash. The manager changes and determinations, weightings to reinvest, et cetera, lead to cash. And perhaps it's appropriate for there to be a

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cash position held on a shorter term basis, due to market conditions, and those are typically limited to a period of time.

What this policy proposes is a 5 percent limit on cash; and that if there were to be a reason why, particularly this third reason, that it was felt that an allocation above 5 percent were warranted, that prior notification approval by the board would be required.

Lastly, and unrelated to the cash. We are all familiar with -- although, I'm not sure we're looking at every detail -- but we're all familiar with the basket clause. And you can come up with some combination, because there is an infinite combination of ways that it can actually be allocated as being a target. You can come up with some combination that is technically permitted by the ranges you're about to approve, but that may violate the basket clause.

And so, the key point here is that if there is an issue, you want to be inside the ranges. But if we are inside the ranges and we are violating the basket clause, that's still a problem, because the basket clause governs no matter what.

So, now to the details. On page 4, what we have shown or focused on are two columns numbers. First

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and second and fourth column are the numbers. And on the second column of the numbers, we have here longer term target allocation that the board has approved. And on the rightmost column, the fourth column of the numbers, we have what's been labeled trigger points for ranges.

So, if you never had to compensate for all these illiquids and whatever else, your permissible range to U.S. Equity with the 31 percent target will be plus or minus of 6 percent, from 25 to 37 percent of the portfolio.

And so on and so forth, going down the columns. These are the ranges, and I don't think they changed substantially since we discussed it in the past. And I already made comments and won't repeat about the illiquidity to interpret that.

But generally speaking, these ranges were a function of a variety of factors, including how the asset classes would be correlated with each other, what the transaction costs are, how big the asset class is as a percentage of the portfolio, et cetera, et cetera.

And these seem very reasonable to us and allow for flexibility both in views on particular market dislocations and opportunities, as well as the natural markets without causing conflicts in activity within the

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portfolios.

Now, where it gets slightly more complicated is in how we adjust for some of these other categories. And the categories specifically that we are talking about are those such as private equity, core private real estate and noncore private real estate and emerging markets debt and opportunistic fixed income. So, those are noted one through four. There are five line items.

We will present by way of example. What would happen, based on your September 30 allocation with the latest available market values and the time to rebalance, is that the private equity that you actually had a 5.67 percent beat in the portfolio, which is under the new target of 5.4 percent.

Footnote 1 explains any difference and changes added or subtracted in this case from U.S. Equity. And so there are other pieces that are being added and subtracted from U.S. Equity to cover that, to go to that number and it will make sense.

This same thing happens with noncore real estate, two lines below. And that is another 2.1 percent underweight. And there's a little rounding. So, these combinations are about 3.1 or 3.2 percent, shy of the target in these categories, which the next closest public market risk profile to keep practical was

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U.S. Equities in this case.

And so if you go to the third column of number at the top, you can see that the U.S. Equities target was adjusted for this particular month, that rebalancing will keep done in the latest available information by that 3.2 percent shortfall added to U.S Equity for this purpose.

That's point 1, the short footnote specified for each of the illiquid asset classes, which illiquid asset class or asset classes shortfall on the illiquidity, or if there were no overweight, the overweight would be subtracted from.

And for at least the two that I pointed out, the private equity and noncore private real estate, they are getting added to U.S. Equity. And a bit of U.S Equity from opportunistic to kind of get the risk profile right with rounding.

So, now we get from having a long term target, which no one is changing, that's still a longer term target of 31 percent to an adjusted target for rebalancing purposes of 34.2 percent. And in order to keep the risk profile of this line of what we had, we also would allow for the latitude that these ranges are intended to allow.

For rebalancing purposes, this is the second

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main point. The plus and minus 6 percent from the top right, to which apply around the 34.2 number. Okay. So, it would allow you to go from 28.2 to 48.2. I will stop if there are questions.

So, in competition with various people in this room and in particular with BAM, we also went through each of these asset classes that are listed, but they don't all look like U.S. Equity. They don't all -- the portfolio looks like the asset classes for mapping them too, but map them to something that are a reasonable proxy for the risk level and for the next kind of closest and proxy thing, without going crazy in having -- we also want something that easily is clear and transparent.

And so basically what happened, the footnotes here describe where the money would go. It would be added to the shortfall in the illiquid or subtracted from the illiquid. So, I'm just running through them. Private equity is one that a shortfall would be added to, U.S. Equity and overweight subtracted to U.S. Equity.

The propriety real estate is noncore. A footnote to core real estate, and that would go into the Core+5 fixed income allocation or come out of the overweight.

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Footnote 3 applies to emerging markets debt, and that would be a combination of high yield and the Core+5 program, that kind of proxy risk profile.

And lastly, Footnote 4 applies to opportunistic fix income, which would be a combination of high yield and -- so that would be kind of a boost of the risk level.

This was all very thought out in combination with the Bureau of Asset Management, in terms of mapping out the goals. It spells out and we understand how it works, and these ranges would allow flexibility around adjusted targets. So that's the main point. And I have two examples.

MR. SMARR: So, I understand the trigger point in relation to the adjusted target allocation. So, looking at noncore real estate, does this mean that what you just described would be in fact that the noncore number went to 2 percent or 4 percent? How does the 1 percent relate to -- I'm looking at noncore real estate.

MR. LYON: The trigger points are not very actionable as it pertain to the adjusted target to illiquids.

The trigger points are illiquid, apply more to long term targets. And the trigger points that were

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ranges aren't forcing action in the case of the illiquid in any case. So, the trigger points for illiquids are relevant when applying to a long term target. And the whole reason we have an adjusted target is just the illiquids are never, other than (unclear). And that the trigger points around the adjusted targets only apply to the public market liquidity categories.

MR. SMARR: But in this case, the long term is also the same as adjusted. Will what I asked still hold? Noncore real estate?

MR. LYON: So, the long term target is 3 percent and the adjusted is 0.9 percent.

MR. SMARR: I'll look at it. That's an example. I see what you are saying now.

MR. LYON: All right. We are on page 40.

What we did on the following pages is, we just try to isolate one category to make sure that what we had in mind is clear. Let's go on page 5. All we basically assumed everything as the target -- this is hypothetical, to bring it to light. I'm just going to focus on page 5 on the yellow rows.

And what we are saying on page 5 is everything in this target except private equity is in this case overweight; and it's 2 percent overweight, 8 percent versus 6. And of course something has to be

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correspondingly underweight, so it happened to make it the Core+5 portfolio.

So based on methodology, I just explained what would happen with this private equity overweight is that the adjustment would be to U.S. Equities, and that U.S. Equity target is to change from 31 to 29 percent. And those rebalancing ranges in plus and minus equity will now be around 29 percent.

So, we just tried to isolate one example by putting it all equal. And we did the same thing on page 6. Also, just using private equity again, simply showing it 2 percent underweight, and Core+5 as being 2 percent overweight. And so what happened here is that Core+5 is overweight and needs to be rebalanced, or could be rebalanced. Private equity was 2 percent underweight. That gets added into the U.S. Equity target, and you can see that the U.S. Equity target goes from 31 to 32 percent. We'll be just trying to keep all else equal.

So, that is the end of the presentation, and we have some information I could run through about correlation metrics. I'm happy to do that. And at this point I will open up for any questions, or if anyone wants to add anything on what we're proposing.

CHAIRPERSON AARONSON: Anybody?

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MS. ROMAIN: Thank you very much for the comprehensive description of how this might work. And I know it's not a perfect world. Thank you.

MR. LYON: You're welcome.

MS. MARCH: And I would move that we move the proposal -- and by consensus we adopt it.

MR. SCHLOSS: Yes.

MS. EMERY: Yes.

MR. SCHLOSS: Sounds good. Thanks, great job. That ends the Comptroller's agenda for the public session.

CHAIRPERSON AARONSON: Let's move on to the public section for the passport funds.

MR. LYON: The first thing that I'd like to go over is the quarterly report for the passport funds. Then we get into October and an update on November. So, we start with the green books that we distributed. Of course we reviewed the performance that's behind us in the prior meeting, highlights, and we talked about markets, a backdrop on page 1, behind tab 1.

We know that (unclear) in the third quarter, and a great time for the most part for fixed income, particularly those that were high quality and Treasuries. And something that brings that to light is an extreme interest rate drop, very long in duration,

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long maturity Treasury investments. These were particularly well (unclear), the longest of the Treasury investments of the 20 plus year index. This just kind of pops up on the top of the page in terms of how strong something (unclear) outperforms in this kind of environment.

And that will be relevant later when we talk about benchmarks. We will come back to that.

For equities that is a particularly troubling environment during the quarter, with all the volatility that we discussed earlier.

If you flip ahead again to the first passport fund, that's tab 2. And during the quarter the fund was down almost 15 percent on net of fee basis, small consolation, but it was 40 basis points ahead of the broad U.S. Equity market, and behind the hybrid benchmark.

And for the year that ended September 30, the fund is down 0.63 percent net of fees. It was behind, it's noted, two benchmarks that we used for the fund. The longer term performance is noted, and probably will be back over time. Still the fund that continues to a little bit less in terms of volatility over the rolling five-year period. And it's very consistent. We talked about this. Then the broad

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Russell 3000, and that's the goal. It won't always happen, but that's the goal, given the nature of the fund as well as conclusion of the defensive composite.

There are some comments about the defensive that composite. The funding is down 50 percent; the defensive is down about half of that. So theoretically, working at least during this period of time. But it doesn't look that great versus its benchmark.

And one of the issues is that there is a lot of (unclear) in the benchmark defensive composite, which may or may not be the best reflection of the defensive composite structured today.

And one of our agenda items for the first quarter is to report back as to whether that continues to be a benchmark that we think for this composite. The international composite was much closer to the benchmark due to the lag by 40 basis points for the quarter. The asset allocation targets were roughly in line.

And if you go ahead to page 4, you can see how the total fund compared on a risk return basis for the five-year period ending September 30. And basically, (unclear) the diversified equity fund, the Variable A were short; and you can see that it was notably a little less volatility than the broad U.S. Equity market.

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Looking ahead a little bit. The other thing that is of some type of interest, and we have one such manager now, is how the tactical allocation strategies and (unclear) in these environments -- what you can see is that the GMO strategy at quarter end -- it's actually not that different than the benchmark in terms of equity rate (unclear) issue of 63 percent in equities. And there are certainly underlying, very meaningful positions within equities and within fixed income.

So, it is not the benchmark but they're compressing their views within those broad asset classes as oppose to broad asset classes. And behind that is all the detail that previously we went through about the monthly composite. So I'm going to move on to Variable B, unless there are questions.

There you can see the allocation assets on September 30, $412 million, and you can see how it split in terms of underlying assets, those portions of this portfolio... and has been publicly shared with the participants and others. The fund is in the progress of migrating toward the market value option. We'll provide an update on that in executive session.

Flip ahead to Tab 4, you can see the options... in the grand scheme of things, are relatively international, inflation protection and socially

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responsive funds. And for the quarter, you can see the assets for each fund on page 178. For the quarter the international fund outperformed, and that was the good news. The bad news is it's been down 18.76 percent. Clearly, we talked already about the rough time -- generally, the non-U.S. equities in particular, and so that was disappointing.

Since the inception of the fund, the International Equity Fund has returned an annualized around 9.3 percent, which is more than 4 percent ahead of the annualized benchmark. So, the relative returns face a strong investment option, added in from (unclear).

The inflation protection fund for the quarter has a negative 6.7 percent return. TIPS was positive and we're not expected to track that for short time periods. Since inception it is within basis points of its benchmark. In other words, it had been doing much better in this particular quarter, very challenging benchmark.

And the socially responsive equity fund for this quarter, it did lag its benchmark, down 16 percent, but since inception is in positive territory, up 1.4 percent; the benchmark was down 1 1/2 percent on an annualized basis.

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And all these numbers, all the reports show on the Passport funds that are net for all the managers. So, the detail of each of the funds behind this is not (unclear) on the particular note.

If you do have questions in reviewing these reports, feel free to bring it up at the next meeting. Any questions currently?

So, in the interest of moving forward, the next item is the October update. And the October 31 flash for the equity fund, you can see the total assets at $9.4 billion on October 31. And you can see that generally there weren't any huge deviations from target, all the allocations being within 2 percent of target.

On page 3, the total return was 10.44 percent net of fees in the month. That brings the year to date returns almost back to break even, negative 15 basis points, net of fees. And you can see that that slightly trails the Russell 3000. And for the month we are ahead of the hybrid benchmark, and year to date still behind it.

During the month, of course the equities, particularly in the U.S., have been strong performers. The defensive composite was only up 5.75... but did have a positive return.

So, no other observations, unless there are

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questions, that I want to point out at this particular moment. If anyone has questions, just let me know.

The variable International Investment Protection and Socially Responsive Fund, respectively, you can see how they performed for the month of October as well. And the asset levels are on the top of the page. The Socially Responsive Equity Fund is a little bit (unclear) relative to the inflation protection fund.

The international fund is up 9.6 for the month, within about 20 basis points of its benchmark, that is in negative territory.

The inflation protection fund bounced back significantly, so it went up 5.5 percent. The benchmark did increase, so only up 1.4, so it came back a lot of ground relatively reported on.

The socially response equity fund beat its benchmark on a year to date basis. That is in negative territory, (unclear) percent. And then referring to since inception returns, I mentioned that before -- through 9/30 the international and socially responsive funds were ahead. And the inflation protection had moved to break even. That's back.

And so that's the latest month performance. They're now all meaningfully ahead since inception again. So, clearly things are -- having a strong month

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like that, it makes a difference since inception numbers -- even though we're not talking about period of almost three and a half years.

Any other question, more questions?

MS. EMERY: Do we have performance? I know we're in the process of transitioning the bond fund, but do we have performance on that, as well?

MR. LYON: The value options are still through year end. We reported on it on more of a quarterly basis, as the manager was (unclear) annually -- once we get the year end and this funds become the market value investment option, we will have a similar report to this.

MS. EMERY: Thanks.

MR. LYON: And lastly, the preliminary benchmark performance, we already discussed the November results. That's basically for the month. They looked pretty bad a few days ago, and everybody knows that a couple of good days past (unclear) so back to close to break even on equities, diversified equities behind the benchmark probably down about .8 (unclear) preliminary info, and the underlying mutual funds and the other options did. But November was roughly flat.

So, it will make us happy, slightly negative, but not the disaster of a week ago. I believe

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that's everything for the variable portion of the public agenda.

CHAIRPERSON AARONSON: Is there any motion?

MS. MARCH: Yes. Sir, pursuant to Public Officer Law, Section 105, I move that we go on to executive session to discuss the proposed acquisition, sale or exchange of securities held by the Teachers Retirement System; and to discuss possibly proposed pending or current litigation.

CHAIRPERSON AARONSON: Second?

MS. ROMAIN: Second.

CHAIRPERSON AARONSON: Any discussion?

All those in favor say "Aye."

(A chorus of "Ayes.")

(At this time the meeting went into Executive Session.)

CHAIRPERSON AARONSON: Is there a motion?

MS. MARCH: So moved. I move we go out of the executive session.

MS. EMERY: Second.

CHAIRPERSON AARONSON: Any discussion?

All those in favor say "Aye."

(A chorus of "Ayes.")

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Okay. We're out of executive session. And in the executive session we did several matters of business, and Susan, will you give us the report on what we did in the executive session?

MS. STANG: Absolutely.

In the executive session of the pension fund, presentations on several emerging market managers were received. Consensus was reached, which will be announced at the appropriate time.

An update on the private equity portfolio was presented, and an update on the real estate portfolio was presented.

In the executive session of the variable funds, an update on the transition of stable value funds was presented, and a manager update was provided.

CHAIRPERSON AARONSON: Do I hear a motion?

MS. MARCH: I move that we adjourn.

MS. ROMAIN: Second.

CHAIRPERSON AARONSON: Any objections?

And this board is adjourned.

(Time noted: 1:55 p.m.)

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C E R T I F I C A T I O N

I, Jeffrey Shapiro, a Shorthand Reporter and Notary Public, within and for the State of New York, do hereby certify that I reported the proceedings in the within-entitled matter, on Thursday, December 11, 2010, at the offices of the NYC TEACHERS RETIREMENT SYSTEM, New York, New York, and that this is an accurate transcription of these proceedings.

IN WITNESS WHEREOF, I have hereunto set my hand this _____ day of _____________, 2011.

____

JEFFREY SHAPIRO