NEW YORK CITY TEACHERS' RETIREMENT SYSTEM
INVESTMENT MEETING
held on Thursday, December 9, 2010
at
55 Water Street
New York, New York

ATTENDEES:

MELVYN AARONSON, Chairperson, Trustee
SANDRA MARCH, Trustee
MONA ROMAIN, Trustee
LARRY SCHLOSS, Trustee, Comptroller's Office
RANJI NAGASWAMI, Trustee, Finance
NELSON SERRANO
LIZ CALDAS, Comptroller's Office
MARTIN GANTZ, Comptroller's Office
JOEL GILLER, Comptroller's Office
MARC GROSS, Comptroller's Office
SEEMA HINGORANI, Comptroller's Office
MARC KATZ, Comptroller's Office
KATHY MARTINO, Comptroller's Office
JOHN MERSEBURG, Comptroller's Office
YVONNE NELSON, Comptroller's Office
ROBERT C. NORTH, JR., Actuary
CHRIS LYON, Rocaton
ROBIN PELISH, Rocaton
KAREN SEEMEN, Corporation Counsel
ROBERTA UFFORD
STEVE BYRNES, Townsend
SARAH CACHAT, Townsend

P R O C E E D I N G S
(Time noted: 10:10 a.m.)
MR. SERRANO: Good morning, everybody.
We will begin the December 9, 2010 investment meeting requirements by calling the roll.
Before I do that, I want to mention that we had a few communication from the Mayor's Office, that Tino Hernandez has resigned from our board and been replaced by Lisette Nieves.
So, I will now call the roll.
Melvyn Aaronson?
MR. AARONSON: Here.
MR. SERRANO: Kathleen Grimm?
(No response.)
She is not present.
Lisette Nieves?
(No response.)
She's also not present.
Sandra March?
MS. MARCH: Here.
MR. SERRANO: Ranji Nagaswami?
MS. NAGASWAMI: Here.
MR. SERRANO: Mona Romain?
MS. ROMAIN: Here.
MR. SERRANO: And Larry Schloss.

MR. SCHLOSS: Here.
MR. SERRANO: We have a quorum. And we need to elect an acting chairperson.
MS. MARCH: I nominate Melvyn Aaronson.
MR. SERRANO: We need a second.
MS. NAGASWAMI: I second.
MR. SERRANO: All in favor say "Aye."
(A chorus of "Ayes.")
Opposed?
Abstentions?
It's all yours, Mr. Aaronson.
MR. AARONSON: I'd like to announce that two members of the board have to leave promptly at 1:00 in the afternoon. So, if we could, let's make sure we go through this as expeditiously as possible.
The first item on the agenda today is the public agenda. We will do the qualified pension plan portion first on the public agenda.
MR. GANTZ: The first thing on the agenda is the flash report. Everyone should have a copy of the flash report as of October 31, 2010. If you don't have that in front you, we certainly an extra copies over here.
As you scan the numbers in the column labelled "Fiscal Year to Date," the returns as of 10/31,

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we see that the equity returns were very strong and the fixed income return very strong, as well. Non-U.S. Equity is better than U.S. Equity so far, and that's partially due to the Fed QE2 program and the expectation of that. The Fed QE2 program has lifted all risky assets and all the asset classes that you see here including fixed income.

So, going through the numbers of U.S. Equity we estimate -- actually, we don't estimate the number was 1605, and that's basis points ahead. The 12 month return is just to the right of that.

Non-U.S. Equity was just short of 20 percent. REITs continues with a very strong absolute level return, to 17.98. The private equity and private real estate numbers are now updated, and they're showing returns through the period ending June. And you will hear a little bit more about that later.

We also updated the benchmark, which we're now showing as the Odyssey benchmark for real estate.

Total equity returned 15.67.

For fixed income, the investment grade of 4 plus 5 structured program returned 354 ahead of the benchmark.

TIPS were very strong, returned 549 over, ahead of the benchmark.

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High yield, which of course is more correlated with equities, did better, returning 865.

And convertible bonds, which are even more correlated with equity, was certainly on the up side because of the option value, returned 10.75.

Opportunistic continued doing well, returning 737.

Total fixed income was 473.

Taking it all together, Teachers show at 11.87. Backing out the public market fees it's 11.73 behind the policy benchmark.

The reasons for the negative behind the policy benchmark is really in the timing difference, mostly with private equity. And in fact, when you look at the 12-month returns, it's a little bit closer and when you look at the 12-month return for the fiscal year to date, it's also closer. So, it is due to that, as well as slightly overweight to fixed income.

Are there any questions?

MR. AARONSON: Seeing none, we will go to the next item.

MR. GANTZ: Now, we have the quarterly reports. So, we have a few extra copies if you need them over here.

As I mentioned before, if you return to page

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3 you'll see Rocaton, the chart that shows a graph of overall how the asset classes did.

And you will see the quarter ending September, the equity markets rallied, with non-U.S. Equity doing better, as I just mentioned.

But generally, all risky asset classes did well. And that was due to sort of mixed economic reports, the high unemployment and the expectation anticipation of the QE2 program, which was announced after the end of the quarter, in November.

If you turn to page 9, you will see the total return for the Teachers' Retirement System value as of September 30 was $37.8 billion. The first two set of bars that you will see are the same because of 3 months is the same as fiscal year to date. The return was 888, behind the policy benchmark of 1005.

Again that's mostly do to the timing difference with private equity. But as you see over the 12-month period, that smooths out and the return was 10.95, 6 basis points ahead of the policy benchmark. Over the long periods of time, while the numbers on an absolute basis were lower than the last one year, through September, we have been ahead or closer to the policy benchmark.

The next page shows where the assets were

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allocated. Clearly the big part of the pie is the red slice that's U.S. Equity, over 42 percent. The over and underweights are below that. We are a little overweight U.S. Equity, a little underweight developed markets in equity. Given the uncertainty with the euro, that seems about right. We are also underweight in real estate and to extent we're underweight in real estate, that's going into the U.S. Equity market.

On the fixed income side we're somewhat overweight high yield. And we're looking to put more assets into opportunistic fixed income, as well.

Next few pages show the attributions of returns, what the sources of return was, because of over-underweight policy, or the manager is doing well versus the benchmark.

And for the quarter ending September, the 3 months, both the allocation effect was negative and the management effect was negative. The fund was somewhat overweight fixed income, and a very strong market that is most of what the allocation effect is -- management effect is mostly due to the timing differences in private equity, as we'll see in a couple of other slides.

But you see on the next page, on page 12, the number is sort of even out with the managers. The managers actually did very well for the year, beating their benchmark net of 98 basis points, setting off the allocation effect is minus 92 basis points. And that's mostly from the overweight fixed income. We're positive 6 basis points, returning overall 10.95.

Three years, however, because of the 2008 returns, the overall level of return were negative. But the portfolio did beat the benchmark 29 basis points, returning minus 213. And you see over time the allocation effects for the over/underweights do get... out.

I mentioned before the private equity lag issue, and you see that on page 14. For the quarter, private equity, which shows 58 basis points... not because according to the custodian's attribution system, where we were comparing a set of returns that are from a prior quarter. But as you see over time, it smooths down, it's still negative, but it smooths down to a lower negative number.

The sources of return that added value to the system were really most of your public market securities: Core plus 5, EAFE, as well as U.S. Equity.

The next two pages, starting on page 15, shows how Teachers did versus other large public funds greater than $10 million. I do apologize for the small

print on this chart. Its much smaller than it normally is.

As you see on the column on the left, Teachers was in the 47th percentile. And the fourth column, which is the 1-year column, Teachers was in the 27th, just below the 1st quartile.

Really what's driving the returns, and the returns are generally determined overall where you rank, by the U.S. Equity exposure. U.S. Equity exposure is large. So U.S. Equity on the chart is referred to by those red triangles. So when the red triangle is low, in other words the Russell 3000 is below what we are as a policy, or as returns, you would expect that our returns as far as rankings would be lower. When it's higher you would expect it to be higher, because of the large allocation we have to U.S. Equity.

The next page shows year by year. On the right side, how Teachers did. As you see in 2009 here, where it's near the median. In 2008 it's also near the median, as is year 2007, and in the fourth percentile.

Starting on page 82, we see the total Equity.

MS. NAGASWAMI: Martin, on page 15, could we get the policy benchmark the same as you have it on page 16 for the...

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MR. GANTZ: Page 15, the policy benchmark. Right. Absolutely, we can do that. Somehow that dropped off -- I think that used to be there. So, we will absolutely put that -- sorry.

On page 18 you will see that a little more than 67 percent of the fund, or about 67 percent of the fund was allocated to equity, representing $25.3 billion. And, as mentioned before, the largest allocation is to U.S. Equity. That's the red, more than 63 percent.

So, starting with the U.S. Equity on page 19, you will see that by far the biggest allocation to the passive fund -- passive funds represent over 94 percent of the assets. Interestingly, small cap and large cap did very similar results. This quarter, growth did better than value in the quarter.

So, we have a few small cap managers, and we show it on page 20; $138 million dollars, and the managers did well. Absolute basis you're going to see high returns throughout the slides. And in this case on the relative basis, managers outperformed by -- just with the manager, outperformed by over 300 basis points for the quarter and 264 for the 12-month period.

Large cap results are shown on the next page. And here the managers trailed the benchmark by

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32 basis points for the quarter and by 45 for the year. Again, on an absolute basis, the returns were quite strong.

The emerging manager of manager program is on page 22. And it has a little bit longer of a track record. And here managers did well, certainly for the year returning 13.68; 272 ahead. Part of the reason they were ahead is because there are some small cap exposures in excess of what the Russell 3000 will have, and that shows up in the 1 and 2-year numbers.

Of course, what's really driving the returns here is on the next slide, page 23. Forty percent of the entire fund is in the passive Russell 3000, that's $15 million. And as expected, the returns track the benchmark. The benchmark was very high, over 11 percent for the quarter. As the year, as you see, the yearly returns were pretty much driven by what happened in that quarter.

Longer term, I do want to point out the 10-year number. And you see that the Russell 3000 over 10-years in September returned with 0.09 percent.

Total domestic equity returns on the next page are primarily driven by what happen on the previous page, and most of the assets, over 94 percent are passively invested.

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Non-U.S. Equity is on page 25, and 15 percent of the assets are here. It's all developed market investments, and all actively managed, and diversified among value, growth and core.

So, how did managers do? Can you flip to page 26 to see that for the quarter, the returns were 15.78, well ahead of the U.S. market did for Core. That had to do with issues going on with the euro, and currencies which benefitted non-U.S. Equity investors.

But if you look at the 12-month number, where managers were ahead by 261 basis points, you can see uncertainty that happened over the past year with the euro and in the euro zone; and then the euro zone returns were 588, and the benchmark itself was only 327.

Page 27, it shows REITs, and 40 percent of the assets of the fund $1.5 billion dollars. And this has been really a strong performer since inception of the program, has done well for the quarter, returning 13.6 basis points ahead; for the year, returning over 33 percent; over 300 basis points ahead. And since inception over 7 years, returns to the fund are over 10 percent.

I also want to point out, however, the chart or the bottom that shows volatility. This fund is -- because the investment in one particular asset class

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with a narrow focus, but the universe of real estate investment trust, does provide a lot of volatility, and over the past three years the volatility was 40 percent. It's a lot of upside and downside in 2008, the market went down 60 or 75 percent, and then doubled after that.

And finally, for equities, we have the activist environmental sustainable strategies. Here the manager's on an absolute basis were returning quite good numbers, well behind for the quarter and for the year.

On page 30, we had fixed income, and this is 33 percent of the fund, $12.5 billion. It's the largest allocation to the investment Core plus 5 program, and that comes in at 54 percent of the program.

Breaking down the Core plus 5 is on the next page. And you will see that the over/underweight column shows that we were overweight to spread products, mortgages and credit, underweight Treasuries; both government and credit as well, and they returned over 4 percent. The primary reason for that was the expectations of QE2, so Treasury rates went down, so the government market did well.

And investors were searching for yield and they did so in investment grade credit as well as high yield credit, as we'll see in a little bit. The good news is, all managers, all programs across all the sectors, were ahead of the benchmarks.

And we see that on the next page, the total structured program in Core +5 returned 301, that's a pretty strong quarter, 30 basis points ahead. The year was very strong returning 10.38, 148 ahead.

And what that did is to bring a long term numbers back to where we were hoping it would be. If you remember, looking at this a couple years ago, in 2008 and 2009, a lot of long term results were eroded, and now came back as the managers have done a very good job over the past year.

The volatility on the bottom contrasted with what you see on the equity side. You'll see it's mostly in the 4 to 5 percent range. The earning of those -- you will see across 3, 5, 15-year numbers and then 6 to 7 percent range, across the 4 percent in volatility.

TIPS returns are on page 33. The managers here did very well, ahead of the benchmark; and the numbers are positive for the year, 964 for the quarter, 286. This is a program that has done very well since inception five years ago, returning 585 ahead of the benchmark. We have 4 percent of the fund invested there. The start of the traditional fixed income is

high yield, and on the following page, very good quarter on the actual basis of returns, 622. Although that was 30 basis points behind the benchmark, and for the year returning 1550, 18 basis points behind -- the program was well ahead of the benchmark for the longer term time period, and you'll see the returns on an absolute basis, 7 percent or more.

In addition, and when you look at the table below, the managers were more defensive in the benchmark. That shows up in the volatility numbers. And that also explains why there was slightly behind in a very strong quarter.

Convertible bonds are sort of a hybrid fixed income equity product. And in a very strong equity market we expect good returns here, and that's really what happened. Managers were a little bit more defensive so they were behind the benchmark; but I'm happy to report over the 2-year number, the managers returned 14.25, which is now ahead of the benchmark. We'll be talking a little about this in executive session.

We had to change the scale on page 36 to accommodate a very strong 1-year return for opportunistic fixed income. The managers were behind by 64 basis points for the quarter. But as you can see, we're well ahead for the year. This is a program that's worked and worked, and we'll be talking more about this in the months ahead.

And ETI is on page 37, and Kathy Martino sitting next to me has a little bit more to tell about the specifics of that program.

MS. MARTINO: Good morning. I'll remind you that your returns are shown net of fees, which are about 26 basis points on the whole portfolio. And while it underperformed its custom benchmark by 19 basis points, for 3 months it did outperform its custom benchmark for all the other periods. And that is what we expected to see in the portfolio.

If you want to turn to the big packet, we'll talk a little about the collateral. Page 8 is your multi-family... rehabilitation program.

You purchased over $5 million in loans over the quarter in the Bronx, Brooklyn, and Manhattan. And the chart will show you historically where your investments have been; and right where you have active commitments.

The next page is your AFL-CIO Housing Investment Trust, in the next two pages. They are coming in later to present as we are recommending some increased allocation there. I will say that there were

an additional 42 loans made to Teachers' Retirement System through their HIT program in the last quarter. And again, the chart will show you where that activity is. So, then you have the work force housing initiative. And then after that, you have the CPV revolver, and a construction line of credit. And the bottom shows you where active construction is going on in low income communities throughout New York City.

You have a commitment to that fund of $25 million. Following that is your access capital strategy. Again, there's not a lot of activity there. It is doing fine, the portfolio -- and I'm trying to see where your investments have been historically over time. And finally, your last page is performance by manager.

Any questions?

MS. NELSON: In the same book on page 17, we will give the highlights of performance for Teachers' portfolio for the second quarter. On page 17, for last quarter, there was an inflection point, you had a positive return. Last quarter, that continues with the second quarter with the Teachers' portfolio.

It earned a return of 5.4 percent on a gross basis. And after manager fees, 4.5 percent. On a net basis we outperformed newly adopted benchmark, which is the Odyssey, which we're also comparing on a net basis.

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And there is a positive basis point spread -- through the performance of the Teachers' portfolio and the benchmark.

In terms of the portfolio size, the market value is slightly above $400 million, at $407 million. We also have outstanding about 360 commitments that we have not funded yet. Together that aggregates to $768 million.

In terms of real estate, you're about 1.2 percent funded at this point, and 2 percent committed of the real estate allocation, which is, right now at 5 percent.

What follows is the market commentary that was prepared by Townsend, and they will be here later on to talk about certain investments in detail. But the gist of it is that based on many of the indices that track real estate investment activity, it appears that the real estate fundamentals have appeared to have bottomed and we are kind of moving up along a very slow and gradual recovery.

We talked about, earlier, how much real estate is linked to macro economic indicators, primarily unemployment. And unfortunately, the number last week was 9.8 percent. So, there is a recovery. It can be slow, it can be gradual. We've seen it in certain

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property sectors, apartments, hotel daily rate, also in certain types of retails, particularly grocery retail, considered by most investors to be recession proof. So, people have got to buy food.

In terms of performance as a portfolio, if you look down at the bottom, in terms of performance and outperformance, it looks kind of like that barbell thing where we turned the corner on a short-term basis as you can see down at the bottom.

For the first quarter, there's an underperformance midway on an intermediate basis, one, three, five-year. Of course, the benchmark that we looked at, the performance over a rolling five-year period. We've underperformed there, however, for the length of the program. But since inception return, the Teachers' portfolio has realized a return of 5.3 on a net basis, which outperformed the Odyssey benchmark by close 200 basis points, 190 basis points.

The following page kind of tracks the performance against the benchmark that's graphed on a quarter-by-quarter basis. And at the bottom, there is a table with gross and net returns over the quarter, one- and three-year periods just for your convenience.

As we turn page 19, it kind of sets out the portfolio in terms of portfolio construction. We talked

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since the inception of the program about the role of real estate, the fact that we're looking for a strong income return here and a placement hedge of portfolio that's diversified.

And out of the total plan assets for the Teachers' portfolio at second quarter, close to $35 billion in a 5 percent allocation. The real estate program has a potential target of $1.7 billion on a policy basis. We looked at the portfolio seeking diversification in terms of risk by dividing the portfolio into Core, which is a low risk strategy out of the 40 percent.

We're looking for investments for non-Core managers who are seeking investment on an opportunistic basis; also with a floor of 40 percent to give us a 20 percent bond, which will kind of move back and forth in terms of how the market moves.

The figures in the next set of tables of funded and committed status, kind of reflects, at the top of page 1, where we were talking about how the portfolio was $708 million on a market basis and a committed basis. But the split in terms of whether Core or non-Core at this particular point is Core at 35.3 percent and the balance at non-Core.

I talked about the fact that we are at

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1.2 percent invested at this point out of 5 percent allocation. The table at the bottom shows you the kind of cash flow activity that we had, a close snapshot of what is happening for the quarter. We responded by sending out about $26 million throughout managers in capital call. We got about $2.3 million back from three non-Core managers and Core managers in the form of distributions and withdrawals.

On the following page, just a closer look at some of the risk metrics that we consider to be very important in running the program in terms of benchmark, portfolio composition that we talked about, diversification leverage and manager exposure. And with respect to those metrics, the program is exceeding the benchmark on a since inception basis.

We are working towards making additional Core investments that we did last month. But right now, as we mentioned earlier that we're about 35 percent Core and 65 percent non-Core, in terms of our allocation, which is 5 percent, we're getting there, slowly invested at 1.2 percent.

We are fine in terms of the threshold that we set in terms of diversification by property type and geography, little bit over and underleveraged, which is not surprising given the stress that all the financial

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markets have been under, including real estate. And we are totally fine with respect to manager's exposure. There is no over-concentration in any manager.

And the last page kind of sets out diversification for you in terms of property type and geography. Kind of show you all the different strategies different managers are investing in.

Are there any questions?

MS. CALDAS: So, now, I'm going to go through the Teachers' yearly report. I'm going to start on page 34 of your booklet. We'll start with the IRR performance. You will see Hamilton did a nice job on the bar charts and I want to focus on since inception.

And since inception, IRR for Teachers' came out at 5.83 percent, performing well against the Russell 3000 plus 500 basis points, which came in at 4.22 percent. And it's not reflected here, but it's significantly above the benchmark.

If you look at the next page, page 35, you will see some of the activity there for the quarter. And then on the previous quarters, you will see that Paid-In Capital, which is what they called contributions, you will see the trends since picking up since December of last year at its highest level then it went down at March -- end of the first quarter and it

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picked up to get to $88.7 million. And then you'll see distributions is doing the right trend by trending upward, so that's a positive ending at $46 million at the second quarter of 2010.

And then I also appreciate they actually have in here total exposure, so you will see, while your commitments are about $3.3 billion, they added up a market value of $1.6 billion, and added this to the unfunded commitments of $1.3 billion, giving you an indication of where your total exposure is, which is at $3 billion, which is a nice rule of thumb to at least keep an eye on.

And then their point-to-point IRR is really just their 12-month IRR, which is a nice way of seeing how the IRR is done on a 12-month basis. And you'll see for a year ending, it came out of 14.31, but again, since inception, it's really the strongest on the focus of 5.83.

The portfolio did depreciate to $14.8 million, and that was reflective of 65 funds that had write-downs of $43 million. And it was offset by 57 funds that had write-up of $28 million. And as you recall, there were no new commitments for the quarter.

If you just turn back to page 33, which is the previous page, it is portfolio summary. It gives

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you an indication of where you are, again, 125 funds in your portfolio, that is 84 relationships. Capital commitments is mild up 6 from the previous quarter at $3.3 billion. You still have 1.4 of unfunded commitments. Total capital contributed 2.2. Capital distributed is $827 million, and the market value again was 1.6.

In terms of performance, again, you have the IRR which was 5.83 percent; and the total value multiple of 1.1. It's pretty much at that cost at this point.

And then your portfolio exposures, if you need take a look at that visually, it's on page 40. I can just walk through it.

And you will see the diversification of your portfolio. Again, majority, as you know, 71 percent in corporate finance, followed by 13 percent of venture capital, 11 percent of special situation, distressed debt at 2 percent, secondary at 1 percent and mezzanine at 2 percent.

And as they had already commented in the past, the majority of your exposure is in North America, 81 percent; the rest of the world is 6 percent; Europe, 12; and 1 percent in Asia.

Hamilton Lane also put in a great deal of information on some value drivers. And I think it's

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actually -- it's great to have them go through that. On page 36 and 37, they will be in later on today to walk you through that.

And then just very quickly on some of the market's indicators to see what's going on out there, much like Teachers, a lot of other LPs have been very strong in putting capital out there. Part of it is they have so much dry powder that's out there in the portfolio that slows down their commitments, as well. So, it's really a trend. You will see that on page 27 bar chart.

If you turn to the page of transaction volume, it hasn't picked up as in previous years, but there has been some level of activity and Hamilton Lane covers that on page 28, as you'll see. But the last piece is actually what's really worth noting on page 30. This is really the casual trends that they're seeing in the industry.

And as Larry had mentioned in the past, it's new taxation on carried into -- so, you will see some of these funds trying to sell out some of their portfolios so they can bring in the capital before it starts getting taxed. And then you'll see these trends of distribution coming in at $44 million, which is slowly been rising up to about the 2008 levels, so probably you'll be seeing that trend throughout this month.

Again, secondary, as Larry mentioned before, is on an uptick.

So, Hamilton Lane should be here to give a little more detail on more of their findings.

If there are any questions, I can take them now.

MS. PELISH: So, when you use the Russell 3000 as a benchmark, do you use it as an IRR so you can track the cash flows into that rather than the time weighted?

MS. CALDAS: Right, the dollar weighted.

MR. SCHLOSS: That's the end of the quarterly results.

MR. AARONSON: That concludes the public report of the Comptroller's Office, and now we go to public report on the variable programs.

MR. LYON: Good morning. So, I'm going to start with the quarterly reports, which everyone should have a copy of, the green, bound book from Rocaton on each of the variable funds.

And I'll go relatively quickly, but if you have any questions, please interrupt and we will cover the highlights of your -- the first section has the market performance information which is kind of covered

in the Comptroller's Office report. But this reviews information since September 30th. And as you know, that was the strong quarter for equities in particular.

On page 3, behind tab 2, we have some commentaries regarding the diversified equity fund or Variable A, and essentially very strong performance and absolute returns through September 30th. For the quarter, for instance, the fund is up almost 12 percent. It's a little bit ahead of the Russell 3000 and about 20 basis points behind the hybrid benchmark. But of course, all these numbers are reported net of fees.

And for the year, it was slightly behind those two benchmarks, but still for the calendar -- for the 12-month ended December 30th, it's up a little over 10 percent.

If you flip ahead to page 4, some of what we'd like to look at will be relevant other discussions as well. The risk profile of the fund looking backward on a five-year basis, and what you can see is just a fund shown at a green square was to the left of the Russell 3000, meaning it exhibited less performance volatility. Not dramatically less, but noticeably less for the U.S. Equity market.

And that is by design, and we hope to see that over most rolling five-year periods.

If you flip ahead to page 6, you can see a similar chart with a different scale. You can see, again, the Russell 3000 is right at middle of the grid, the red circle. The fund is the green square to the left. And you can see how each of the other major composites in their benchmark stack up from risk and return perspective over the five-year period.

And as you would expect, the defense strategies composite is the brown, so it's pretty far to the left. While it's behind the benchmark over this time period, its return was also ahead of that fund as a whole. So, it's been added to during this time period not only by reducing risk, but also by increasing performance.

Down on page 7, you can see the allocations for the two taxable asset allocation managers in the defensive strategies composite. And what's interesting here is that Mellon is at 79 percent equity, still overweight versus their benchmark, but less dramatically so than many periods in their recent past.

The rest of the section is the flash report that was previously covered. So, if there's no questions, I will flip to the next tab.

MS. NAGASWAMI: On page 6 --

MR. LYON: The flash report, the managers,

these are actually legacy groupings, but eclectic are the most active U.S. Equity managers, and they're broken out on the flash report.

MS. NAGASWAMI: Okay.

MR. LYON: Then behind tab 3, we have Variable B as a stable value fund. You can see that the allocations were fairly close to the 50/50 target. The targets, 50 percent to... and 50 percent to everything else, which is predominantly managed by the NY stable value -- the NY Mellon stable value.

Behind -- and we report, as you know, on that one in a more detailed basis annually or as needed.

Behind Tab 4 we have the other three variable options, and there is a brief summary on page 18. You can see the international equity fund had very strong performance for the quarter, up 16 percent, it's a little bit behind the benchmark. So, the one year period it returns 4.5 percent less than U.S. Equities, but nonetheless good result versus the benchmark.

The inflation reduction option also added strong return for the quarter, up 6.6 percent. It's a benchmark which we don't expect to track closely over a short time period, but we're hoping to allocate over long time periods. The benchmark was only 1.9 percent. And for the one-year period, this fund was up almost 14

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percent, which was almost 8 percent ahead of its benchmark and it was all net of fees. So, very strong results here.

And lastly, the social responsive equity fund also added a strong absolute return for the quarter of almost 9 percent. That did however, lag. However, over the one-year period, it was also meaningfully ahead of its benchmark throughout 3 percent ahead and with a 13 percent return.

So, very strong results. And the rest of this tab profiles each of those funds in terms of what they are composed of: The international equity fund, comprised of the same managers that we use in the international equity deposits of Variable A, the inflation protection fund... PIMCO managed mutual funds, and the socially responsive equity fund... mutual funds are invested in a fairly concentrated basket of... profile more detail the rest of the tab, for your information.

The rest of the book has much more market and economic detail and our...

So, any questions?

The next item is now fast forwarded through October 31st. The flash report for Variable A, starts Variable A. And you can see on Variable A the first

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page, it's the total fund assets of approximately $9.69 billion. That all of the composites are fairly close to target, keeping in mind that they have an interim target through indices that higher than the long-term target, while some invested them on an interim basis. And therefore the active management composite, specifically the risk control portion of it, is lower than the long-term targets for that.

Flipping ahead to page 3. On page 3, in the middle of the page, where it says "Teacher's Total," this is the total of Variable A where diversified equity fund returned. You can see for October, another positive month, 3.65 percent net of fees; and that compares fairly closely to the Russell 3000 and the hybrid benchmark, the Russell 3000 which was ahead of us -- the hybrid was a little behind us.

And during the month of October, all the composites contributed reasonable returns to the defense... having lowest return of 2.5 percent. International was a little less than the fund as a whole. So, the leaders or the bulk of the allocation, which is the U.S. Equity, across those different...

For the year-to-date period, if you look again at page 3, the middle row, you can see that the fund was up 8.47, that's the calendar year-to-date. And that again, that's fairly close to the Russell 3000 and the hybrid is a little bit behind. The biggest contributor for the year to date... composite, which is up almost 10 percent for that particular time period.

And some of the active managers that were previously known as eclectic managers... a positive return for Variable A, up 8.5. So, again, strong performance for year to date across all sectors.

Any questions?

The next separate handout is the Variable C flash report. And again, for the month of October, you can see pretty strong absolute returns. The international fund is up 3.4 versus 3.6 benchmark; year to date up 5.57 versus 5.13 for the benchmark. So, a modest amount of performance, but outperformance nonetheless. It's decent, but not the strongest of all options... decent returns as well.

The inflation protection fund is up about 1.6, matching the benchmark through the month of October. It still has a great distance over the benchmark, outperformance for the year to date period.

And the socially responsive fund is up about 5 percent, more than a percent ahead of the benchmark for the month, for the year to date period also... benchmark, up 13.4 percent versus 7.8 for the benchmark.

So, pretty strong quarter, very strong year to date, particularly for the second two options absolute and relative terms. I'm pretty happy with how these have been doing, and the asset information is at the top of the page.

Questions?

November 30, '09, you get a sense of how things are going through November 30th. The proxy variable benchmark is down from 33 basis points. So, we expect Variable A to be something close to that when we get the results.

And you can see how Variable D and E options are doing by mutual funds... PIMCO asset fund is down almost 2 percent for the month, and the socially responsive equity... mutual fund is up... so, kind of a mix, kind of flat month for November, but the year to date return is very strong.

So, any other questions?

That's everything we have for public session.

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

MR. KATZ: However, we need to have a motion to get out of private, executive, and back into public.
MS. MARCH: So moved.
MS. NAGASWAMI: Second.
MR. KATZ: And then we need Susan to summarize what occurred in executive session.
MS. STANG: In the executive session for the variable funds, an update on Variable B was provided.
We interviewed two investment managers within the defensive composite. A consensus was reached, which will be disclosed at the appropriate time.
There was a presentation by a third

investment manager within Variable A. A consensus was reached, which will also be disclosed at the appropriate time.
Within the executive session for the pension fund, there was a discussion of the asset allocation within U.S. Equities. A decision was made which will be announced in the appropriate time.
There was a discussion of two investment managers. Decisions were made, which will be announced at the appropriate time.
A quarterly update on the private equity portfolio was presented. A quarterly update on the real estate portfolio was presented. And monthly performance reviews of various asset classes as well as various manager updates were provided.
(Discussion off the record.)
MR. KATZ: Motion to adjourn?
MS. MARCH: So moved.
MR. SCHLOSS: Second.
MR. KATZ: We are adjourned.
(Time noted: 2:25 p.m.)

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 9, 2010, at the offices of the NYC TEACHERS RETIREMENT SYSTEM, 55 Water Street, 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 _____________, 2010.

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JEFFREY SHAPIRO