NEW YORK CITY TEACHERS' RETIREMENT SYSTEM
INVESTMENT MEETING
held on Thursday, January 6, 2011
at
55 Water Street
New York, New York

ATTENDEES:

SANDRA MARCH, Acting Chairperson, Trustee
MONA ROMAIN, Trustee
LARRY SCHLOSS, Trustee, Comptroller's Office
RANJI NAGASWAMI, Trustee, Finance
LISETTE NIEVES, Trustee
NELSON SERRANO, Executive Director, TRS
CATHERINE BANAT, Comptroller's Office
MARTIN GANTZ, Comptroller's Office
JOEL GILLER, Comptroller's Office
MARC KATZ, TRS
YVONNE NELSON, Comptroller's Office
ROBERT C. NORTH, JR., Actuary
CHRIS LYON, Rocaton
ROBIN PELISH, Rocaton
INGA VAN EYSDEN, Corporation Counsel
ROBERTA UFFORD, Groom Law Group

P R O C E E D I N G S

(Time noted: 9:50 a.m.)

MR. SERRANO: I call to order the January 6, 2011 investment meeting of the Teachers Retirement System and call the roll.

Melvin Aaronson?

(No response.)

Note that he's not present. He's away on a business trip in Washington, D.C.

Cathleen Grimm?

(No response.)

Note that she's also not present.

Sandra March?

MS. MARCH: Here.

MR. SERRANO: Ranji Nagaswami?

MS. NAGASWAMI: Here.

MR. SERRANO: Lisette Nieves?

(No response.)

Note that she's on her way and she will be here momentarily, but she's not present right now.

Mona Romain?

MS. ROMAIN: Present.

MR. SERRANO: Larry Schloss?

MR. SCHLOSS: Present.

MR. SERRANO: Okay. We do have a quorum.

The first order of business is to elect an acting chairperson.

MS. ROMAIN: I nominate Sandra March.

MS. NAGASWAMI: Second.

MR. SERRANO: All in favor, say "Aye."

(A chorus of "Ayes.")

Any opposed?

Any abstentions?

ACTING CHAIRPERSON MARCH: Good morning, everybody. And I'd like to on behalf of all of us to wish each other a happy and a healthy New Year. This is the first time we're together in 2011 and let's hope 2011 is as good, if not, better a year for our retirement system's performance.

So, I will start; and if someone could just indicate what our agenda is and who is going first and what we are doing first. I believe we're going into --

MR. GILLER: Attorney-client. Two matters. One is securities litigation matter. I'm going to ask everybody who's not related, does not have any interest in that issue, to leave the room right now.

MR. SCHLOSS: Joel, I have one request. We have an economist from BlackRock that has to leave at 11:00. He's not here yet. He has to leave at 11:00 sharp, so we might have to break attorney-client into two.

ACTING CHAIRPERSON MARCH: We are now in public session. We have guests from BlackRock. I'm going to turn this over to Larry Schloss to introduce them. Before we do that, I would like to on behalf of the board formally welcome Lisette Nieves as a board member to the Teachers' Retirement board. We guarantee you will enjoy yourself.

(Laughter.)

Now, whether we agree or disagree, we guarantee you it is fun to be on the Teachers' Retirement board in addition to everything else. Can I turn it over to Larry, please?

MS. NIEVES: Thank you.

MR. McKENZIE: Good morning, everyone. Thank you for having us now. We got a note from Larry Schloss & Company that said come down and give us your state of the union economically, and so we brought our best minds around to give you that state of the union. Most of you know me. I'm Obie McKenzie. I cover all five funds in New York for you. Rick Rieder, to my left, is the managing director and BlackRock's chief investment officer of fixed income, fundamental portfolios and head of its global credit business and credit strategies.

Before joining BlackRock in 2009, he was president and chief executive officer of R3 Capital Partners. He also served as vice chairman and member of the borrowing committee for the U.S. Treasury. Mr. Rieder is a member of the board of Emory University, Emory Business School, as well as the university's investment and finance committee.

He also serves as chairman of the board of the North Star Academy Charter Public School in Newark, founder and chairman of the board of Graduation Generation in Atlanta, and is a member of the boards of the National Leadership Council of the Communities and Schools Educational Foundation, the Newark Youth Foundation and a committee for the Center for Celiac Research at the University of Maryland.

Mr. Rieder earned a BBA degree of business from Emory University in 1983 and an MBA degree from Wharton School of Business, University of Pennsylvania in 1987.

With that, I'm going to turn the presentation over to Rick to give you an economic overview of what's happening in the world today.

MR. RIEDER: Thanks, everybody. Thanks for having us. So, I think I will go through some -- in the interest of time, I'm going to keep it relatively brief.

I'm going to talk to you about some interesting things in terms of investing today. And we've talked about it outside.

How we actually take investing for the next five to ten years is going to be dramatically different than the way it was for the last 20 or 30 years. And the ramifications for the number of different factors, and the ramifications for how you think about long-term investing are really different structurally than they've been in the past.

So, I'm going to spend some time on structural reasons within the economy and then talk about the investings that we think makes sense investing on.

So, if you go to page 2. I've used this slide in a number of presentations over the last couple of years to talk about the compression of the yields in today's investing environment. And if you look on this table, if you look at where we were coming in, in 2009, the other is a dynamic of where you could buy high yields credit of 17 and change percent.

At the top of the page, you could buy CMBS at 12 1/2 percent. You could buy investor grade credit at 7 1/4. And if you go all the way down to the bottom, you will see the compression of yields that's taken place virtually every single month, of the last couple of years. And the reason why I think that's such an important dynamic is the need from endowment state funds, insurance company's pension funds for yield has become extraordinarily profound.

What's happened today is this need for yield in the portfolios has created this dynamic of going into other markets such as emerging markets, high yield, and a loosening of some of the restrictions around how you invest; because the need to get yield is so profound today and it's so different from where it was a couple of years ago.

The only other point I would make on this page, that is, changed is yields were compressing every single month for two years. And all of a sudden in the last couple of months, I think it started to reverse. And I'll talk a bit about why that is and what I think it means going forward.

If you go to the next page, one thing that I thought was pretty interesting is you're starting -- I'm talking about growth in the economy. And one thing I think is pretty interesting is you have seen this burst of growth now in a couple of months in the economy. And yet the same thing happened last April and May, last spring.

And actually, if you look at the numbers, whether it's a manufacturing data, the stock market volatility, the dollar, it was really, really similar back in the spring of last year. You started the surge of growth. And all of a sudden, it fell off a cliff.

And while the Fed had to engineer QE2 and start easing again and issuing a accommodating policy. The reason why I use this chart today is I want to show -- actually, I think this is different today than it was in the spring, whether you've seen very similar types of growth. Actually, I think it is different. And I'm showing you why I think that is the case.

If you go to the next page, if there was one page that hopefully one thought you took from this presentation, this is the one that I think -- hopefully, you're not going to throw me out after the page -- but this is the thing that I think is the most important dynamic in economics today, and structurally on why it's so different investing today versus the way it was in the last 20 or 30 years.

If you take a look on this table on the top that in today's U.S. economy, if you take all the debt in the system, it's $53 trillion of debt in the system today in total GDP -- sorry, page 4 -- so total debt in the system is -- or total GDP is $14 1/2 trillion getting this 360 percent debt to GDP.

And you hear a lot of people talking about "we need to bring the debt down in the U.S. economy" and "we have to get the debt down." And actually, I think that's factually wrong. And actually, I don't think you could bring the debt down in the U.S. economy, because it's too painful for the system to bring the debt down.

If you were to bring debt down, it would choke the economy, it would choke the banking system, and it would choke the ability to grow, but you actually can't bring this $53 trillion number down. What you have to bring down is this 360 percent leverage ratio. The reason why it's such a big deal is it means that the $14 1/2 trillion, the denominator has to grow faster. And actually, the $53 trillion can grow and has to grow, because you need lending to grow small businesses and to keep the economy moving. Why is that such a big deal?

If you look at the graph down on the bottom and you think about what's happened in the economy since the early '80s is, every time you had a recession or a slowdown economy, the way you came out of recession is actually you put more leverage on the system.

So, if you look at this, the gray bars, from 1982 to 1990, what happened is you added three turns -- full three turns of the U.S. economy of debt under the system to get from '82 to '90. From '90 to 2000, 2001, you did it again, another three turns of leverage. And then from 2001 to 2008, you put about 2 1/2 turns of leverage. Why is it such a big deal?

The reason why it's such a big deal, when you think about investing in fixed income or equities or commodities is, because we have been used to in the investing world for the last 30 years on what could happen. And what happened is you could get more debt on the system and that would certainly smooth out the slower periods of growth. But it also means you think about -- and I'll show you some really interesting data on this.

If you think about investing in fixed income, that this leverage ratio is coming down, it has to come down. It means there are less fixed income products you can buy over the next 20 or 30 years. And the other thing that's so significant is the growth in the U.S. economy can't be what it was for the last 30 years, if you can believe this, because you don't have the grease in the system, obviously, the ability to put leverage on. So, this is why I think this is such a big deal, and over the next five or ten years, I'll show you some interesting data on this why it's so different from the last 30 years.

MS. NAGASWAMI: Mr. Rieder, to make sure I understand, if we hadn't levered up two or three times or more... basis, the GDP would not have grown? It's a very self-enforcing --

MR. RIEDER: Totally. So, there is a school of thought which I actually don't believe in, but you can argue for the last 30 years there's growth in the U.S. economy, that much of it was actually false growth; because you had this gearing in the system that was helping you and that was literally the rocket booster for growth -- and we've go to different industries.

I actually don't believe that. I actually do think there was real organic growth in U.S. economy, but it was really assisted by the fact that every time it slowed down, there's a really long discussion about -- what happens is when it slowed down, corporate borrowing slowed and consumer borrowing slowed but the government actually stepped in and was the engine to actually keep the system moving.

And actually today, it has to go the other way. It has really significant implications for growth. And so, I just think structurally for the next five to ten years, growth is going to be a lot slower than we've seen in the last 20 to 30 years. Not that there won't be growth. It's just got to be structurally slower.

The other thing that I think is really significant -- if you look on that in page 5 -- because tomorrow you're going to get an employment number. So, as I already said -- so I showed for the Treasury, I presented to Chairman Bernanke and Greenspan many, many times.

And the thing that became very apparent, we talked to the Fed is they're incredibly focused on employment. The world thinks that the Fed's focused on growth and inflation and it's not; it's actually focused on employment and inflation.

And it's why it's such a big deal today for the Fed to try and bring the employment down, but I'm going to show you why it's so hard to do.

ACTING CHAIRPERSON MARCH: Because all the jobs are overseas, that's why. When I made my Avis reservation this morning, at 5:00 o'clock in the morning -- I know, I'm the chair.

(Laughter.)

When I made my reservation at 5:00 in the morning, the clerk was in the Philippines, that's why we have a problem. And the other problem, let me say it now, is taxes, and we'll go into that later.

MR. RIEDER: So, I'm actually going to go through a couple or so. And I will give a good reason for that.

(Laughter.)

ACTING CHAIRPERSON MARCH: I'm only the temporary chair.

(Laughter.)

MR. RIEDER: So, if you look on this graph on the left, so tomorrow we're going to get a good employment number, and it will show some reversals on the employment trend. And actually, we think it's going to be a really good number tomorrow.

That being said, if you look at the chart on the left and you think about what's happening now to get a normal recovery, you need to get this economy 300,000 plus jobs a month. To keep unemployment break even, to keep us at this 9 and -- 9, 8 percent of unemployment, you need to get 150,000 jobs a month. In the last six or seven months, in the growth they're in this recovery, you're not even breaking even in terms of keeping unemployment static.

In the growth phase coming out of recovery, there are a couple of factors that are profound. If you look at this mess on the right, the graph on the right -- actually, if you look at this -- and this actually goes to your point. When you actually look at what's happened in the last five or six months, when you break down full-time versus part-time employment, if you actually look at these folks on the yellow, it's easier to see, that's full-time employment. So, while you're actually getting jobs in today's economy, you're actually losing full-time jobs still.

ACTING CHAIRPERSON MARCH: Cheaper for the employer.

MR. RIEDER: I have presented at a dinner the other night. And I said if you on Inc. Magazine's list of the three fastest growing companies in this economy; two of them are temporary employment companies and one is a business outsourcing company.

I really believe -- and it's your point about the cost, whether it's the cost of health care, pensions, et cetera, it's -- I don't think I put it in here. It's cheaper to actually have your workers work longer hours and hire temporary workers for projects as opposed to bringing people on full-time. It has really significant ramifications.

But what the Fed is trying to do, what the Treasury -- what the administration is trying to do is bring down unemployment. It's really hard to hire somebody full-time because it's too expensive today. And structurally, I think unemployment stays high for a bit.

If you go to the next page, the other dynamic that is really profound that I'm sure this group is sensitive to -- the other issue on today's economy is, if you look at the chart on the left, unemployment rate by age. You had the surge of unemployment of young people in today's economy. And in the chart -- so, the chart that I didn't put in, that's a parallel -- if you check that input in, if you take people working that are aged 55 and above, they're staying in the work for significantly longer because they're healthier and because they need the money.

So, what's happening is there's no vibrancy of economic growth and it makes it harder for young people entering the workforce today. And so, if you look at it, it's not just unemployment problem, it's actually getting young people into the workforce.

And if you look at the chart on the right, you had this incredible dichotomy in terms of, if you look at growth and manufacturing over the last number of years, that's structural dynamic of -- it's targeted jobs that have to come back.

And I just want to point to this one, and it's the last thing I'll say on unemployment but I think it's such a big deal, if you look at this attachment that I passed around -- so, the last point I want to make on this unemployment thing, and the reason why I'm spending so much time on it is because the policy is so important today in terms of where we are going economically.

The other thing in today's economy -- it's not just creating employment, but there's been this incredible bifurcation of employment by education level. So, no high school education, look at the top line. So, if you look at the top line, if you look at the surge of unemployment in this economy, you have this incredible bifurcation.

It's not people with BA's or college graduate or PhD's, it's actually people that don't have a high school education. And then if you look at the bifurcation below, income change by education level, you have this extraordinary dynamic. And the reason why it's advanced degree versus high school dropout, it's typically it's hard to do a lot of work -- a lot of presentations in education.

And the reason why I think it's structurally a big deal for the Fed, and structurally a big deal for the U.S. economy is: You actually have today the job's posting rate is the highest it's ever been in history; and unemployment is about as high as it's ever been, certainly in the last 20 years.

And the reason why is you have the structural problem, and there's a training and there's an education part aspect of this that's really important, but that's really hard -- the Fed can do QE2. It can't change this and you can't fix this unilaterally. But these are a really big deal.

Also, I think the employment number tomorrow is going to be really good, but I think structurally, you can't bring unemployment down of any significant magnitude for a while. That's why I think growth is going to be slower than it's been in the last 30 years. That has real ramifications for the U.S. economy.

So, on page 7, all I did is I show that today -- and I'll do this real fast in interest of time. But today when you break down employment, it's only 500,000 more people are employed today versus a year ago, think about the number, you need 150,000 a month just to break even on employment. There's only 500,000 more people employed today than a year ago. And again, I think it's improving, but I think it's going to be structurally hard.

That's what I think is a really big deal, and think about not just investing for the next three months but investing for the next five or ten years. I think the structural headwind is a really big deal. I also think one of the things I'm really encouraged by is coordinating fiscal policy with monetary policy is incredibly important to improve some of the structural employment issues, such as small business lending programs, tax incentives to hire people.

There's money trapped overseas that companies have and incentives to bring that money back to hire people. It's really important. And you're starting to see some of that fiscal mechanism work, which is a really big deal. And how that plays out over the next three to six months is really important to think about how the economy grows.

MS. NIEVES: I have a question for you. Hasn't all the research showed that any of the tax incentives to hire, that only works for those that are making a minimum wage and not above that?

We haven't seen the tax incentive's impact for those that are on the living wage or above. So, I'm saying, is that a solution when most people, most companies would rather not deal with the paperwork of the tax incentive for anything above that? It's McDonald's that takes advantage of the facts of that.

MR. RIEDER: So, this is the point that you made earlier. So there's two truths -- you have data in the back. You have this bifurcation today that you've never seen before in U.S. economy, where the companies are doing extraordinarily well. The companies are sitting tremendous amounts of cash and U.S. economy is not.

I don't have it here, but I show this chart of how could it be that companies are doing so well and the U.S. economy is not. And there's a bunch of reasons; many of which are, it's cheaper to hire somebody overseas today than it is back in U.S. But there's a big deal with regard to that, and I will touch on this a bit towards the end.

Companies have $2 trillion of cash trapped overseas; because if they bring it back, there's a 35 percent tax rate to bring it back. If you said there's a one-time tax charge, that means we're going to charge you for one year, two years 5 percent, bring it back, but it has to be used for capital expenditure or hiring people.

And I'm showing you that the greater growth of U.S. economy, so much of the growth that's coming is because they're exporting overseas. And because Asia is growing, the emerging markets are growing. And so, for example, company like Caterpillar, its business is growing because they're exporting equipment to China.

They would build a plant and literally if they had a one-time opportunity or depreciation schedule that said, "Gosh, if I don't build that plant today I'm going to lose this benefit." And if they actually built that plant and hired people and the small businesses that are vendors to those big companies, we'll start to improve. And I think that begins that velocity of employment.

Your point well is taken. By the way, I don't think any of this has been easy. But I think there are a lot of things that have to come together to improve that.

ACTING CHAIRPERSON MARCH: Could we have those charts, that information that you spoke about that you didn't include in here? Would you please supply that to Larry so he could supply it to us?

MR. RIEDER: Yes, ma'am.

ACTING CHAIRPERSON MARCH: Thank you.

MS. NIEVES: And one other question on this presentation. My question has to do with the increasing concern that companies are saying about the amount that they're spending internally, but that's not included in what we consider the cheap labor cost overseas.

MR. RIEDER: Turnover domestically?

MS. NIEVES: Turnover in their overseas. So, I think that when we think about what are crossovers, we really talked about what is the turnover that will have to be in other places, and what's the impact is going to be.

So, I'm just adding on it because I think those are things as we talk about it, what are people weighing that are going to allow them to build confidence to increase their input?

MR. RIEDER: That's a really good point. I think there are a lot of things that are happening in changing. And by the way, it actually -- there's a long -- in China, the actual wage pressure in China is making it become much more expensive today. But it takes a long time, right, but I do think a lot of that is happening. But what I make on this, it's going to take five to ten years for this really to turn to --

ACTING CHAIRPERSON MARCH: I want to make sure I understand what you said. You said that part of the money that corporations are holding on to and they're not spending because they're afraid. If they use that money, they will have to pay the 35 percent tax rate. But then I think you said that they could be required to use that money to re-employ and put back into profit and not back into their pockets?

MR. RIEDER: No. Much of the money sitting in Europe, in places like Ireland that are tax havens and other -- and so the cash to bring -- and it's a lot of pharmaceutical and technology companies. To bring that cash back today, brought it back to the U.S. at a 35 percent tax.

So, your incentive for the company that literally -- I actually show a chart where I show building a plant in Ireland versus building it in the U.S., how much money you save a company because of that tax differential.

If you said to the company in the U.S. today, bring the money back today and we're going to charge it -- instead of 35 percent, it's 5 to 10 percent. Actually, I think that's revenue --

ACTING CHAIRPERSON MARCH: Can you require them to do that? That is what I'm saying to you.

MR. RIEDER: No, you can't. But you're only going to say to that end and it's going a bit longer than this, but the only thing I would say on that end is today what's happening is many of the companies today are sitting on tremendous amounts of cash and tremendous amount of free cash flow.

And every quarter, they're going to the board of directors and say, we're sitting on cash, we're building cash, what are we doing? We're not building plants to hire people per se. There are some growth that are not significant.

If you said I've got a one-time opportunity to bring back this cash and only get charged 5 percent to do it, I will bring it back today. And the marginal benefit to that is I'll build a plant in the U.S. and I'll hire people and the vendors to that plant, they're going ti be small businesses. I do think that really helps. And I actually think that's tax... to the U.S., because it's never coming back otherwise.

ACTING CHAIRPERSON MARCH: I'll ask again. Can they be required to do it?

MR. RIEDER: To bring it back? No. The only reason I think they will is, today when you go to your board --today because a lot of companies are sitting on so much cash, note the most effective use of cash is to buy back your stock. It's the worst thing in the world for the U.S. economy, because it means you're decapitalizing the U.S. economy.

And it literally means, instead of spending it on a plant and equipment and building your business, you're actually shrinking your company. But if you have a tax incentive to say today, I have a one time opportunity to do it, as long as it's spent on building a plant or employment -- by the way, I know it's not that easy. But I think this helps, things in the margin, they help the structural problem today.

MS. ROMAIN: What effect does it have on profits, that they're sitting on the cash?

MR. RIEDER: I agree. Today, they sit on that cash and that cash will never literally come back. So what a lot of big companies are doing -- they're actually borrowing. What they do is, they borrow in the U.S., keep the cash sitting overseas, they finance your business here. But you finance today, keep the cash there. It's cheaper to do it.

But you're not incented to bring it back. And it's just one of the reasons why you can – because you've never seen this in history. When you have an economy, you have a consumer that -- I'll show you the bifurcation in the U.S. economy -- the consumer that is suffering by and large, the U.S. consumer is suffering.

And I'll show you how you can't create buyers for houses and cars until you get the economy away from this bifurcated economy today, once you get these things moving. I think you're going to be in a rut for a while unless we do some of these things, and I think they're all iterative.

So, I've argued that there are only two things that will create bipartisan support for this. One is, the markets really crash, which I don't think is going to happen. The second is, you can't bring employment down. And I think what's happened in the last couple of months, it's become evident that you can't buy QE2, you can't bring employment down because of all those structural reasons and many more.

But I think they're starting to get some support for legislation to try and create some of these incentives.

ACTING CHAIRPERSON MARCH: Part of the problem -- people will get angry by me saying in it -- the incentives are not there. On the other side, there's no incentive. There is a huge amount of greed.

MR. RIEDER: Yes.

ACTING CHAIRPERSON MARCH: There's a huge amount of greed that has developed in this country, and it's scary. If more economists would write what you are saying, we would be in possibly a different position. All economists write today is, cut the taxes because that's what you have to do. You're creating incentives. And you know what, nothing has happened because they're not creating the incentives.

MR. RIEDER: I agree with that. It has to be targeted.

ACTING CHAIRPERSON MARCH: The revolution -- my friend said it, but I said it louder.

MR. RIEDER: I'll fire to the next few pages quickly.

There are a bunch of reasons why I laid out -- Structurally, I think U.S. economy is slower. That being said, the growth now is pretty good and I actually would argue and a lot of this QE2 is actually working. And I'm talking about why it's working.

So, manufacturing is picking up. There's this weekly claims data for -- but manufacturing is starting to pick up and it's real. There's a very strong correlation, when you go to this, using policy and QE2, the weakening dollar and the correlation between weakening dollar, how manufacturing improves, because your export business improves. It's really happening, and manufacturing is picking up significantly today.

Go to the next page. Non-manufacturing data is picking up, the non-manufacturing index is picking up. There's a lot of good things that are going on.

If you go the next page. The other thing that's a really big deal, really big deal, is that you're starting to get a velocity of money improving.

So, if you just look at the velocity of money the banks are lending, and it's starting to pick up and you see all the data, all the lending surveys.

And if you look at the growth of M2, so the broader view of monetary, it's starting to pick up. I just want to show you this perspective.

If you look at the right side, that the long-term average for M2 divided by the monetary base. So, that's where you get this velocity money, so bank lending. It's picking up. If you look at -- this year is picking up, but today it is at four and a half times, long-term average is ten times, so it's not great, but it's helping. QE2 is helping and things are picking up.

And I think over the next few months, you'll see economic data that's within the scheme can't be great growth, but it is better and things are definitely improving. What does that mean?

If you look at the next page, there's some really interesting things. So, when Chairman Bernanke gave the Jackson Hole speech back in August, when he announced QE2, there are things that have happened.

So, if you just look at the dollar, the DXY, page 11, the dollar has weakened, credit spreads have tightened, so the ability to borrow has improved significantly. Commodity prices have increased as you would expect to happen and stocks are up a lot.

And there's one thing about this that I never saw from many years of presenting to the Fed board. I've asked the question to Fed boards on numerous occasions. What happens to markets when you do this, and what happens to equity markets?

And every single time the response has been, "We don't know how to predict what markets are going to do with equity markets and the value of stock market." And that's been their response every time. The first time that I've ever seen this, the Fed is very much targeting the equity market.

And there's a real belief that if they move equity prices higher, that it will improve consumption and the wealth effect in this economy, and it's something that you've never seen before. But it's because I think there's so many structural reasons, it's the only thing that the Fed can influence, higher stock prices, higher financial assets to try and get movement going. And I would argue it's working.

The only thing that's not working today is interest rates are actually backing up a little bit. And so, in the last few months, interest rates started to back up, and I just show five-year Treasuries to ten-year Treasuries are starting to back up, because growth is starting to pick up. Suddenly, the Fed would take that every day if it got some up in the rates.

I'm going to skip a couple of pages. We've been talking about this before. Farm profits are growing faster than domestic profits, and companies are relying on international, I talked about that.

I also would argue that some of these things like tax simplification that you talked about earlier, on page 13. Back on 1986, when you have tax reform simplification and the improvement that you got in the economy. And a lot of CEOs today are understanding what tax policy is going be and simplification and tax incentive. It's really important. And my sense is that's starting to be talked about potentially to improve; which again, I'm pretty encouraged by.

Skip 14 for a second. Go to page 15. Let's talk about -- I'm going to spend the rest talking about investing in markets. This is the hardest period that I have ever seen to actually think about investing or investing in different markets.

And the reason why it is, is because you have to be so in tune with what's happening with policy around the world. And so, I tried to lay it out on one really crowded page. I think the Fed has to go through this period. So, employment hasn't improved yet and the Fed's policy mandate hasn't been met yet. Some things are working for the Fed and Treasury still have some initiatives to undertake.

The ECB, because for the next few months, you're going to have to get a refinancing of tremendous debt in Spain and Italy as well as other issues in Greece and Ireland and Portugal. So, you're going to see a lot of policies coming out of Europe over the next three or four months.

The Bank of Japan, also, is going through a series of changes in policy or influence in policy, and China is tightening their policy aggressively today. The reason why I showed this page is we are not in -- I describe it on the bottom right. There's a lot to talk about on this page. But with the global economies not in a harmonious state of equilibrium -- and we'll ultimately get there. But for the next number of months when you think about investing, you have to invest within a dynamic where policy around the world is changing so quickly and so differently, that it really makes -- you've got to be a student.

Whereas you used to be a student of individual securities, used to be a really aggressive student of how the Bank of China is going to tighten policy to try and stave off inflation in their economy, and the impact that has on Asia, and how that inflation comes back to the U.S. And it's really hard today and it's really difficult to think about where and how.

And just to show you on the next page, the difference, when you think about November of this year -- this is just performance in different asset classes. And in November of this year, I think this is where I circled, year-to-date your return from long Treasuries, because of the improvement in Treasuries, you've got a 15 percent return. And in two months, your return is down to 9 percent. So, a huge move in two months.

If you go down to -- just take the Russell 2000 small stocks. Your returns in two months have gone from 13 1/2 percent year-to-date to the year-end to 29 percent. So, you're getting some incredibly aggressive moves and volatility in the marketplace. And I -- because so much of this is given by macro and structural changes in the economy that are creating such incredible volatility in the markets. So, what does that mean? Where do we think you're going over the next few months?

The one thing that I really believe in is that this concept of lifting equity prices that the Fed is trying to engineer an easy policy is having a real impact on personal spending and consumption, and I show this on this page. That is really starting to pick up in terms of consumption, same-store sales. If you look at virtually every company, these numbers are starting to pick up. So, you're actually starting to see some improvement there. That's a real implication for the equity markets in terms of continued growth.

And if you look at the next page, the equity market at the bottom of the page, so I'll just point you to a couple of things. The equity market on the top left is still low of its highs. And if you look at the bottom left, the dividend payout ratio today, these companies are building so much cash sitting and so much cash in the free cash flow generation, so the dividend payout ratio is really low.

So, the equity market, just based on dividend payouts, is actually pretty attractive today. So, I do a monthly call where I talk about -- you're always welcome to listen to it -- where I talk about what happens -- we're talking about for a number of months now that actually the return of capital to dividends is really attractive relative to fixed income now; because we're -- how low rates are and how attractive dividend yields are. So, the equity market, I still think, is going to be in a pretty good shape for a while.

The other thing that I think is a really big deal is, if you go to page -- the bottom right of page 18, so you go back -- you think about that chart that I talked about, that leverage is coming down, the leverage ratios are coming down. And if you think about fixed income at BlackRock-- I spent a lot of time thinking about what's... five years going to be in fixed income?

If you look in 2010, if you just look at the line that's in orange, the amount of issuance in Treasury supply is $1.55 trillion, and total supply and all the fixed income is only $1.5 trillion. So, all the supplies and fixed income is coming from Treasuries. So, now you go to 2011, the number is coming down. So, in 2011 this is going to be a trillion two, the green line of fixed income supply. And in 2012, this is going to be only $1 trillion and all of it is Treasuries.

So, I presented to the New York Fed recently and they said, You're going to buy a trillion of Treasuries out of the marketplace? Just to give you some perspective, all the supply and fixed income is -- you are going to buy all the available supply.

So, the reason why this is such a big deal, if you're trying to fund -- if you have a liability stream as a pension fund or an endowment or insurance company, there's not enough fixed income coming to the marketplace. If you go back to '06 or '07, if you think about -- it's "leverage, finance, the economy, consumer finance securitization market."

In '06, '07, you're getting a trillion eight of supply or trillion nine and only $150 billion with Treasury, so you could have brought agency, security, securitized products, mortgages, commercial mortgage-backed securities. And in 2011 and 2012, we can't buy any products.

So, just look at what I put in the box, this orange box. So, mortgages in 2012 are negative supply of $175 billion. Commercial mortgage backs is negative $30 billion, asset backs is negative 25, CLO's are at negative $40 billion. The reason why it's such a big deal, if you need to get yield in today's environment, it's going to be harder to get it.

And so, why I think the rates aren't going to move up significantly and why is the pension fund insurance company is such big deal to focus on this is because it's hard to get -- one of the things we've done at BlackRock is create origination platforms to try and find more product, because it's really hard today.

And it's so different from the '90s to the last decade because debt was growing, and yet more fixed income product you bought. Today it is not. A really, really big deal when you think about how you are investing and how you think about you're investing for the next five to ten years.

Last thing I leave you with is on page 19. One thing that's really important, and I'm thinking about fixed income, investing or investing in equities or commodities is when you think inflation is going to start. And I spent a lot of time on this and there's one presentation that bifurcated the economy, and I'll spent one minute on this that I think is really powerful.

What's happening with the Fed buying Treasuries and creates an easy money policy is it's creating increases in commodity prices; so food, energy, gas, essential services. That's what's happening in places like China and Brazil, is they're getting inflation in their economies. And there's a long presentation -- I've done this.

What happens is that inflation comes back to the U.S. in the form of higher gas prices, food prices, etc. And so, now what's happening is, you create this bifurcated economy, so the people who need to -- who truly are being hurt by this inflation, the same people buy the houses and cars.

So we have this very weird dynamic and very hard dynamic today. But how do you get inflation --

because the Fed wants a little bit of inflation in today's economy, but you're getting it in bad places. You're getting it not where you want it to go. You want to get in into houses and you want to get it somewhat into cars, somewhat pricing power in cars, but you want to get it, and it's hard to get it there.

And if you just look at this chart on the bottom left, inflation in the last 20 years, the reason why you've had inflation, the blue is shelter. And that's been why you've had inflation, is because house prices have gone up and rental rates have gone up so much. But today there's no inflation coming from houses or rental rates because vacancy rates are extremely high and housing market is still soft and will keep soft for -- we think, for the next year.

So, we don't think inflation is going to grow and the Fed is going to have a hard time creating real inflation and good inflation. There is good inflation and -- for companies that pricing power -- and to get it where you want it to go so that there's improvement in personal balance sheets, but it's really hard to get it there and it's going to take a long time. So I don't like fixed income, I only like to see rates rise because inflation is picking, up any time soon.

MS. NAGASWAMI: Could you comment a little bit on the long versus short... rate?

MR. RIEDER: Yeah. So, there is a really interesting dynamic today in terms of -- that we spent a lot of time debating in the last few months. Just how profound do you think this growth is going to be? The next three to four months is really going to be important. If you think this growth is durable, and I personally don't think you can have dramatic tangible growth anytime soon, meaning the Fed is going to have to be on hold for a while.

That being said, the numbers are going to show some better economic data over the next couple or three months, which we think you can get a near-term flattening of the curve that lets you find -- so the people anticipate the Fed is going to start pulling out. I don't think there's a permanence to that.

But in the next two to three months, we do think that the front end of the curve could come under pressure and the curve flattens because people are going to think without the Fed, you're getting -- all of a sudden, growth is picking up, maybe some inflation is coming, the Fed is going to start -- people thought the Fed wouldn't move to 2014, market now thinks -- based on prices, the market thinks the Fed could move in 2012. If that's right, the curve is going to flatten significantly, and it's starting to flatten.

MS. NAGASWAMI: Are all the levels -- if you look at three to five years rather than three months, are all the rates rising, flattening or --

MR. RIEDER: So, the short-term, we think the ten-year today is 344. We think, short-term, the ten-year could go to 375, back up a little bit, and we think the two-year could move back to 68 basis points. Now, it didn't go to 1 1/4, 1 1/2. Longer term, I really believe in this thesis that the structural growth can't be that profound. And so, I think you can get some pickup in rates today and some flattening of the curves today, but it's short-term in nature, but I actually don't think the Feds are going to move for a long time because of the structural reasons why it's so hard to fix it.

Like you got in April, May, you got these bursts of growth. And I think this one is better than April and May for sure. But I think it's hard to bring employment down, I think it's hard to create inflation. The output, again, is too hard to create inflation, so I don't think the front is moving dramatically higher any time soon.

And the other thing that I think is a real big deal is that page before is a huge supply-demand imbalance because of demographics. There's a bunch of pages I can show you on demographics in this country; there's an aging population, which means you need fixed income and you need yielding products.

And so, you have this huge supply-demand imbalance that individuals for fixed income, pension funds, insurance companies, endowments, state funds, Southern Wealth funds need yield. And it's going to keep a lid on rates really moving up significantly because we won't get much supply, like, for a long time.

I'll skip my summary page because I talked too long.

ACTING CHAIRPERSON MARCH: No, you didn't. No, you did not.

MR. RIEDER: Well, there's one thing in terms of where I think we are going. I think the impediments to growth are high, but I think you're going to see in the next few months better growth. I do think that, watching policy, fiscal policy is going to be really, really important for the markets and policy around the world.

The next two months, Spain and Italy have to roll a tremendous amount of debt, $300 billion of debt, if the markets are really focused on whether they can roll it or not. And if not, it's going impact the markets around the world at a significant magnitude. And so, we're really focused on that. I do think that we have -- we don't think inflation is going to pick up. Growth will be pretty good, but not great.

There's going to be continuing need for yield in today's economy, which I think is going to keep fixed income in pretty good shape, but we are seeing it in our firm. And otherwise, certainly, people going more into equities growth is better for sure. And I think over the next few months, you'll see equities -- it's getting better, fixed income won't improve much. And what we're trying to buy is a bunch of spread sectors today, high-yield debt, commercial mortgage debt, it's better-structured, better-levered, because we think the yield -- there's still a need for yield in today's financial system.

MS. PELISH: And can you comment on regional focuses?

MR. RIEDER: Regional around the world or –

MS. PELISH: Yes. When you're talking not only about asset classes but --

MR. RIEDER: Sure. We talked about this a bit outside. I have a very, very strong point of view that if we're talking about emerging economies, that places like Asia are really experiencing tangible growth that's permanent. And the reason why I think it's permanent, as I stated before, I have a bunch of work where I showed the U.S. in the 1950s versus China today, and have a leverage -- banks are very low-levered, consumers are low-levered, businesses are low-levered and they're desperate and there's just been a tremendous growth of wealth in those regions.

And independence in those reasons, less commodity orientation, that Asia will just keep growing and can grow, can debt finance their growth; whereas, the rest of the developed world, Europe and U.S., can't put any more debt on. But Asia can, to grow their economies. And I really believe in Asia and parts of Brazil and parts of Latin America can be really attractive in debt in equity for a long time.

And this concept of emerging markets, I actually think is a misnomer; but I think places like India, Brazil, China are permanent growth dynamics, developed countries, to some extent, in Europe -- all legal systems are regulatory systems -- but I do think there's even more focus on those parts of the world for a long time.

ACTING CHAIRPERSON MARCH: What I want to ask is, I want to ask our attorney, do you believe, if we're going to ask questions that might involve investments, that we should go back into executive session?

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

ACTING CHAIRPERSON MARCH: I need a motion that we go out of executive session.

MS. ROMAIN: Move.

MR. SCHLOSS: Second.

ACTING CHAIRPERSON MARCH: Thank you. We are now in public session.

(Discussion off the record.)

MR. GANTZ: So, the report shows returns through November 30th. And you will see the market values on the left and the returns for the fiscal year-to-date on the next column on the left, black-colored numbers. And you will see next to it, most of the columns are green, which means the managers and the programs outperform, which is good news. But more importantly, the absolute level of returns has been very high and, since November, there was a very strong December where equity markets did another 6 percent, as we'll see the subsequent time.

But U.S. equity for the fiscal year was 16.80 ahead of benchmark. Non U.S. Equity was 15.07 and real estate investment trust, REITs, is very well continuing the strong performance at 17.50. The private equity and propriety real estate numbers, of course, are back in time for the last available data that we have at this point in June. Total equity is 15.25.

As far as fixed income goes, fixed income returns are positive where nowhere near the returns you see on the equity side, for a plus 5 returning 3.06 ahead of the benchmark. TIPS will return 3.54 also ahead of benchmark. High-yield was just below the benchmark by 1 basis point, but the return is strong at 7.59 because they're, of course, much riskier and has high-yield and are somewhat more correlated to equities.

Convertible bonds are much more correlated to equities. They have the highest return gearing at 10.61 although behind the benchmark by 2.26 percent. Opportunistic had a strong return.

Taking it all together, fixed income was 4.08; and total Teachers, we showed here, at 11.37. And taking out 14 basis points, that's 11.23 for the fiscal year-to-date. The number will be higher, certainly, when we look at the December numbers because of the strong numbers of December.

Are there any questions?

MR. SCHLOSS: Thanks, Martin. That's the

end of our presentation.

ACTING CHAIRPERSON MARCH: Are we moving to the public section for Variable A? May we do so?

MR. LYON: Good morning. So, first I'd like to start with is the flash report for Variable A, which everyone got a copy of -- hopefully look at those, see it in advance. This is through November 30th.

On the first page, you can see the Variable A, or diversified equity fund, at $9 1/2 billion market value at the end of November. You can see how that was allocated across the various composites and adjustment for the money that's invested on an interim basis. All of the allocations are fairly close to the targets.

If you flip ahead two pages to page 3, in the middle of the page where it says, "Teacher Total," you can see the total performance net of fees for the Variable A or diversified equity fund investment option. And you can see for the month of November that this was a modestly negative month for the fund, but the calendar year-to-date results are approximately 8 percent. That is a little bit behind the Russell 3000 but much closer to the hybrid benchmark, which is found a few rows below.

And one of the reasons that year-to-date performance through November wasn't as strong as the broad U.S. equity market is the allocation that we have of some significant internationally -- you can see that the total international composite for the year-to-date is only up 1.2 percent. So, in the light of that currency impact as well.

That said, the 1.2 percent compares favorably to EAFE. Through November, EAFE was essentially flat at 0.1 percent. So, some of our managers did better than the others. But as a group, they did okay. It was for the market impact.

Some of the things that help to the year-to-date period through November included the Russell 3000 indexing, a good portion of the defense of strategy composite, the PIMCO plus strategy and all of the small rate cap managers.

So, those are the areas where we experienced the best returns of the year-to-date period.

Any questions?

The next report is Variable C, D and E, the international inflation protection and growth rate refund with equity funds respectfully. And the top left of this page, you can see the market value $68 million roughly, $17 million and $16 million respectively. And I will just briefly review the performance.

First, for Variable C, you can see that the bolded row, Total International Equity Fund Variable C, for the month it was down 4 percent. It is year-to-date return with approximately 1 percent. Again, bearing favorable to EAFE, but not favorably to the other investment options.

The Inflation Protection Fund Variable D, you can see that that was down about just under 2 percent for the month, but its year-to-date returns are 11.4 percent which is almost double that of the benchmark.

So, this is not a benchmark that we expect to track closely for such a short-time period, but we have the objective to try outpace it over longer time periods.

And lastly, the Socially Responsive Equity Fund was .7 percent, which was a bit ahead of the equity which is basically flat. And you can see that it was almost double of the benchmark here as well for the year-to-date period of 14 percent versus 7.86 percent for the benchmark. So, pretty favorable results and since inception results of these three funds since they were launched in mid-2008, are all significantly ahead of their benchmarks.

Any questions on that?

And lastly, we do have the monthly benchmark report through year-end, and you can see per equity at least December was a positive month. So, if we look to the one-year column you can see that the hybrid benchmark for Variable A is up about 15 1/2 percent for the one-year period; about 6.4 percent of that coming from this past month, so we would expect to be presented with a December flash report at the next meeting to have something close to 6.4 percent return plus or minus. You can see how the other options did, as well.

Other questions? That's all we have for the variable funds public session.

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

ACTING CHAIRPERSON MARCH: Can we have a motion to go out of executive session?

MS. ROMAIN: So moved.

MR. SCHLOSS: Second.

ACTING CHAIRPERSON MARCH: Could I request that someone give a summary?

Susan.

MS. STANG: Thank you.

In the attorney-client privilege session, Corporation Counsel gave a report on one security litigation issue.

In executive session of the pension fund, there was a review of monthly performance by asset class that was presented; as well as a review of 2010 accomplishments , and a work plan for 2011 was presented and discussed.

That 's all she wrote.

ACTING CHAIRPERSON MARCH: I would assume we have a motion to adjourn?

MR. SCHLOSS: So moved.

MS. NAGASWAMI: Second.

ACTING CHAIRPERSON MARCH: We are adjourned.

(Time noted: 12:51 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, January 6, 2011, at the offices of the NYC TEACHERS RETIREMENT SYSTEM, 55 Water Street, 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