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NEW YORK CITY TEACHERS' RETIREMENT SYSTEM
INVESTMENT MEETING
held on Thursday, March 1, 2012
at
55 Water Street
New York, New York

ATTENDEES:
MELVYN AARONSON, Chairperson, Trustee
SANDRA MARCH, Trustee
MONA ROMAIN, Trustee
NELSON SERRANO, Executive Director, TRS
LARRY SCHLOSS, Trustee, Comptroller's Office
JAMIE SMARR, Trustee
JANICE EMERY, Mayor's Office, Trustee
FREIDA FOSTER, Trustee
THADDEUS McTIGUE, Comptroller's Office
MARTIN GANTZ, Comptroller's Office
JOEL GILLER, Comptroller's Office
MARC GROSS, Comptroller's Office
SEEMA HINGORANI, Comptroller's Office
KATHY MARTINO, Comptroller's Office
BARRY MILLER, Comptroller's Office
YVONNE NELSON, Comptroller's Office
MARC KATZ, TRS
SUSAN STANG, TRS
ROBERT C. NORTH, JR., Actuary
LIZ SANCHEZ-PAZ, TRS
ROBIN PELISH, Rocaton
MICHAEL FULVIO, Rocaton
ROBERTA UFFORD, Counsel
RENEE PEARCE
STEVE BYRNES, Townsend
SARAH CACHAT, Townsend
MICHAEL KOENIG, Hamilton Lane
SYLVIA CORINA, Hamilton Lane
STEVE NOVICK, Courtland
BEN BLAKNEY, Courtland
WILLIAM FOSTER, Courtland

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P R O C E E D I N G S

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

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

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

Melvyn Aaronson?

CHAIRPERSON AARONSON: Here.

MR. SERRANO: Kathleen Grimm?

(No response.)

Note that she is not present.

Sandra March?

MS. MARCH: Here.

MR. SERRANO: Janice Emery?

MS. EMERY: Here.

MR. SERRANO: Freida Foster?

MS. FOSTER: Here.

MR. SERRANO: Mona Romain?

MS. ROMAIN: Present.

MR. SERRANO: Larry Schloss?

MR. SCHLOSS: Present.

MR. SERRANO: We have a quorum.

You may continue.

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CHAIRPERSON AARONSON: We are ready to start. And the first order would be the public part of the Passport fund portion.

MS. PELISH: Good morning. I think we will start with the January performance that you should have received already. And Mike Fulvio will take you through that.

MR. FULVIO: Good morning. So, stop me if you have any questions. At the end of January 31, this variable A fund is approximately $9.6 billion. And as you can see on page 1, the rebalancing process in place serves to keep the allocations in line with their targets.

If you flip ahead to page 3, towards the middle of the page, you can see the line item titled Teacher Total. This is the total Variable A performance. And in that first column, you can see 4.82 percent for the month of January. That was slightly trailing the Russell 3000, and slightly ahead of the hybrid benchmark for the month of January.

I'd like to call your attention to the line right above that, the total international composite. This international equity allocation served to help the Variable A fund during the month of January. And as you can see, it was slightly trailing its PB benchmark,

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although it did add to the overall return for the fund.

The reason for the flight underperformance relative to the Russell 3000 for this fund was the defensive strategy's composite, which serves to protect in down markets. And as we saw the strong markets in the month of January, was it expected this would have cause there to be a little bit of trailing relative to the broad U.S. equity market.

And then as you can see, for the 12-month ending January 31st, the fund returned 2 percent, also slightly trailing the Russell 3000 and the hybrid benchmark. And again due to that EP, equity performance, which as we discussed in the past serves to diversify the strategy, although weakness in the non-U.S. markets hindered performance to this fund last year.

MS. PELISH: So, all in all, let's just enjoy the moment; very good month --

(Laughter.)

Equity market up 5 percent, and we participated nicely in that rally.

MR. FULVIO: If you could, please pick up the next handout entitled "Teachers' Retirement System, City of New York, Variable B." This is actually a new page. This will be detailing the performance of the new

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market value bond fund which was transitioned from the previous Variable B at the beginning the 2012.

You could see at the top left of this page, the fund had $390 million of assets at the end of January. And the two portfolios are managed by the two investment managers of the previous option. And now this option for the month of January returned .78 percent, ahead of itsstated Barclays 1 to 5 year government credit benchmarks.

Are there any questions?

MS. PELISH: Just to be clear on what you're looking at, this is a portfolio which comprises about 62 percent of the fund. It's now the totally market value and has no wraps around in it. And that portfolio generated about 50 basis points during the month.

In addition, we have BONY Mellon continue to manage a wrap portfolio, which consists of in large part of stable security wrap portfolios. These single securities will mature within the next two years. And in addition, there is a small allocation to GICs.

Finally, the third component, which is almost 20 percent of the fund as of the end of January, was a cash equivalent portfolio. And we are going to be, in conjunction with TRS staff, going back to the board, probably next month, with the recommendation

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about what to do with that cash.

It maintained a very liquid portfolio during the transition from a wrap portfolio to market value portfolio to facilitate any unusually high outflows. And actually, outflows were higher than we have seen on average historically. But now, we feel comfortable for most of this money. And in addition, we may think about the advantages of unwrapping the remaining portion of the portfolio managed by BONY Mellon.

MR. FULVIO: If I could, please follow your attention to the next page, which shows the details of the Variable C fund, which is at the end of January. It's approximately $71 million. The performance for that fund was 5.3 percent, roughly in line with the EP benchmark for the month. And for the trailing 12-month period, was down 9 percent, although slightly ahead of the EP benchmark for that period.

The Variable D fund, the Inflation Protection Fund, was approximately $27 million as of the end of January. And for the month of January was up to approximately 4.6 percent, ahead of its TIPS and CPI benchmarks.

The socially responsive equity fund, Variable E, which is approximately $35 million at the end of January, returned approximately 3 percent,

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trailing the S&P 500 benchmark return of around 4 1/2 percent.

Are there any questions on Variable C, D and E?

CHAIRPERSON AARONSON: Thank you.

MS. PELISH: So, we have a quarterly report for you.

(Indicating.)

And you should have received that already. The performance data within this report has already been presented to you. It is previous investment meetings. So, I'm going to go through this fairly quickly, and really focus on just a couple of pages. Perhaps we can turn to page 6. While we focus on return both absolutely relative return, in monthly updates, page 6 gives you some information about risk.

And if you look at page 6, there is a lot of dots here, but the total fund, the Variable A fund, is that green square in the middle of the graph on page 6. And this is a five-year performance. And you can see that over five years, performance is slightly negative after taking fees into account. It is very close to the benchmark return.

But the interesting point here is to compare to the Russell 3000 index. And the Russell 3000 index,

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of course, a little bit buried, but it's to the right of the diversified equity fund record for the five years. So, what we are trying to accomplish with this fund is to build a diversified program that has components of not only U.S. equity, which dominates the portfolio, but also an allocation about 15 percent to international equity, to diversify the return pattern over long periods of time. And that's been a drag in recent calendar years.

But we also have the defense component of about 15 percent. And that defense component will lay out during the very strong period of equity returns, that has proved very valuable in providing downside risk during significant market losses.

So, again, what we are trying to achieve is a slightly less risky portfolio which closely tracks the broad U.S. equity market, that during the period of significant U.S. equity market downturns, provide some downside risk. And I think we are largely doing that.

Page 7 has a tactical asset allocation component which is in the defense strategies allocation. And this used to be actually a more important page, because the defensive composite used to be entirely a comprised of tactical asset allocation managers.

Over the past five to ten years, we really

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refashioned that composite such that it now consists of one TA manager, which is GMO, who employs a global allocation strategy. But it also includes convertible strategies and low volatility U.S. equity strategies. And so, I think it's a much more robust structure today because it includes diverse strategies.

The Variable B, David, you have already seen. And within variable C, D and E, we have performance; and for anyone who is interested in it, under Tab 4, we have a lot of detail about the individual portfolios and their holdings.

So, for example, on page 20, what we have done here is taken all of the risk control, the active strategies used in the international equity fund. We drilled down into the holdings of all those portfolios. And we've prepared that combined set of portfolio holdings to the EAFE index, which is the benchmark for that composite.

And so, what you can see is that we have a portfolio that in market capitalizations separates roughly similar to the index. It's a very diversified set of portfolio strategies.

And if you look on page 21, you can see that the predicted tracking error for the degree to which this portfolio's return is expected to vary around the

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EAFE index return. It's about 2.61. So, again -- so, essentially that says most of the time, we expect the annual return of this portfolio to be within the EAFE index plus or minus 260 basis points. So, this is definitely an active strategy, but it is taking a moderate level of risk relative to the benchmark.

On page 22, we have the PIMCO asset fund, which is the strategy used in the inflation protection option within the Passport funds. And the PIMCO all asset fund invests in other PIMCO strategies, so it is managed by actually an entity outside of PIMCO, but uses only PIMCO strategies.

And so, you can see the set of strategies that uses -- is primarily fixed income oriented but also can include some stock related strategies, as well as high yield and emerging markets investments. It is a very diverse set of strategies that over time is intended to produce relatively high return above inflation.

We used the TIPS index as a benchmark for this fund, but this fund will invest in lots of other securities outside of TIPS. So, the real focus is to generate the high rate of real return.

And then finally, the socially responsive fund is detailed beginning on page 23. And this

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portfolio is perhaps the most concentrated options within the Passport funds. It holds 34 securities versus the S&P 500 holdings, that are obviously 500 securities.

And on page 24, you can see that we expect this strategy to be fairly active versus the S&P 500. So, it has an accepted tracking error of about 4 percent, whatever the international equity options and tracking error, versus the benchmark without 2 1/2 percent. This is more concentrated and only uses one manager, so we will have a prior tracking error versus its benchmark.

And with that, I'm happy to answer any questions.

And then finally, I have brought copies of the preliminary performance through the month of February -- actually through February 28.

MR. SCHLOSS: Would it be the month that it wasn't a leap year?

MS. PELISH: You couldn't get it done in time -- we did the 28th. So, again, a great month for equities. The Russell 3000 up to 4.8 percent; a reversal of the 2011 trend. You can see that long Treasuries where actually declined for the month, down almost 1.7 percent. Barclays aggregate... and EAFE up 6

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percent. So a reversal of what we have seen in 2011.

Our expectation is the benchmark return to the month of February, so the total Variable A fund will be close to 4.6 percent; which was make the calendar year to date return is over 9 1/2 percent.

The PIMCO all asset fund returned a little over 2 percent for the month of February, so generated a calendar year to date return of almost 7 percent. And the Neuberger Berman fund, which is socially responsive equity fund, has added a little value to the SNP. So it up for the month of February, so the calendar year to date is almost 9 percent. So, a good two months.

Any questions?

CHAIRPERSON AARONSON: Any questions for Robin? Thank you very much.

Now, we will go to the Comptroller's Office report.

MR. SCHLOSS: Thank you, Mel.

Does anybody need one of these monthly report in living color?

(Indicating.)

So, Martin, shall we start? Just think about the time, you're in December; this is January.

MR. GANTZ: We will go through pretty quickly.

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So, we are looking at this book right here.

(Indicating.)

So, my comment -- and obviously, Larry, I discussed December, the last month, and my comments will in many places mirror what Mike and Robin just said.

But December's quarter was a reverse of the prior dreadful quarter of September, if you remember. And what it did was it draw the return for the full calendar year for the Russell 3000 roughly back up to even slightly above that 12 percent return for the quarter. So, very strong risk was back on.

The Fed was made the announcement that rates would be on hold to 2014. The ECB was calming things down in investors' minds. And overall, at least in the portfolio, is that our risky assets in the portfolio did very, very well. So, I will give you some good news and in a few minutes Larry will give you better news about January and February.

If you turn to page 9, the return only in the last quarter was 6.02 percent; and we will go through what that means in the context of everywhere else in a moment. That was behind the policy benchmark. We show two benchmarks here, one in brown and red -- that's the old benchmark –

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MS. MARCH: Burgundy.

MR. GANTZ: -- burgundy, thank you.

And yellow is the adjusted new policy benchmark. This is a work in progress of where -- we're going to be fine-tuning the adjusted policy benchmark as we get invested to make sure that we are comparing apples to apples. So, this may be adjusted going forward of what we are talking about further.

The next page were actually -- continuing on this page -- what I did for the fiscal year is to bring the return as to a negative 410. And Larry will give the pleasent news that we are now a positive territory as we speak.

But of course, the three years number is now in double digits, at 1202, so that's also a good news.

Next few pages show the same information. On the top of the page, this is where the assets are allocated. That pie chart has different slices and large being green, which is U.S. equity. And the bottom part is the difference.

So, on page 10, it shows versus the old policy weights; page 11 it shows as the new. Page 12 refers to a new adjustment.

So, as an example, on page 10 on -- on the left, in green, reverses the old policy weights. You

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were slightly the underweight to U.S. equities. But because in the U.S. allocation reduced U.S. equity -- turn the page -- and now overweight to U.S. equity. In the adjusted policy, which is the next page, because we have parking places that board approved, we have taken steps to move assets to those parking places, and so we're within the ranges that were discussed at the board, I believe, at December.

I want to draw your attention to page 17. And this is where Teachers ranks versus other large public funds defined as funds greater than $10 billion. I want to draw your attention to the column on the left, which is the last quarter. This is about as good as it gets.

You returned 605, right, not only in the top decile but in the top 5 percent. So, you are in very good company. This good performance also brought the longer term performance into good company. And so, if you turn the page to one year, three year or four year numbers, since we can move assets and do things, are especially a three year and four year as well into the top quartile, and one year at the top quartile.

So, again, we are definitely moving in the right direction and we hope to do so and we will see in January and February, as Larry will show, returns

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continue to be good. While we don't have the rankings, it's pretty safe to say that the quarter now we look pretty good.

So, unless there are any questions, Seema will go through the private equity market.

MS. HINGORANI: Thanks, Martin.

So, if you turn to page 21, the slide just shows how your domestic equity portfolio is broken out. I will point you just to a couple columns, the index return, the actual return and then the difference.

As Martin pointed out earlier, the index returns you see a lot of strong and double digit numbers, particularly in small cap. If you look to the column in the difference, there is a couple highlights, some to the positive, one to the negative here, as small cap active; brown which is one of the developing managers.

And we had a tough quarter, but longer periods, they've certainly done well for TRS. And outside of that, was a good strong and double digit numbers in domestic equities.

I wanted to highlight to page 24, for a moment on large cap. If you look at the large cap returns versus Russell 1000 index, page 24, it is developing managers group of active managers for TRS and

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the quarter, in the longer term periods not looking as strong and we'll have some commentary in executive session as we talk about large cap, mid cap and small cap.

So, if you would turn to page 27, it talks a little bit about the U.S. environmental portfolio that you have. And that's Walden. And they've done quite well for you in the longer time period, if you look at the trailing 12 months and 3 years. So, they are in the line in the quarter but they continue to do well for Teachers over these longer periods.

Next, if you turn to page 29, we'll go through the international portfolio. And there's a couple of highlights here. Again, if you look at the index return and the actual return in the difference column. Compared to what you saw in the U.S. equity side, these numbers are low double, low single digits, mid single digit numbers, compared with double digit numbers in the U.S. for the quarter.

I would just highlight a couple of things. In EAFE, both the value growth and core have done quite well for TRS in the longer period of time. And then if you look in particular in the core segment of EAFE, outperforming by about 150 basis points. Highlighting managers there, they've also done quite well in the

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longer periods of time.

If you then go to page 30, we'll go through a little detail on EAFE overall. You can see here in the three-month period in the quarter, the purple bar is the TRS portfolio, the yellow bar is the index; so outperforming a bit in the quarter. And then if you look at fiscal year to date, trailing 12 months and then trailing three years, doing quite well versus the benchmark.

Now, I'll turn it back to Martin.

MR. GANTZ: So, the fixed income summaries are discussed on page 39. And this is a summary of the overall fixed income allocation, which was over $14 billion for about 34 percent of the fund. You will remember the new asset allocation is roughly just 65/35.

So, as this page shows, half the allocation is shown in green, your investment grade Core+5 program. The next page breaks that program up into its three major components. And if you look at the under and overweight column, you will see that we were underweight Treasuries and the overweight spread products.

In this case, this quarter, the best performer was investment grade credit. And as Robin mentioned, as risk came back into the market in the last two months, that will continue as we show the next few

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months. And the good news is, each of the sectors outperformed, although Treasuries and mortgages outperform by very nominal amount.

The total program again is shown on page 41. And all the way on the left return was 135. While I can't compete the -- the equity market, this was actually a good thing. Because as I've been mentioning in prior meetings, in prior quarters, when your investment grade is high quality fixed income program is meeting the returns, it generally means something really ugly is happening in the capital market.

So, this is getting back to where we would hope the capital market would be in the capital functions. And the return was 1.35 percent, just ahead of the benchmark. The return for the year was 8.73 behind the benchmark; and the three years 8.62 ahead of the benchmark. And the longer term on either side of 7 percent during that time.

You will notice also on the bottom line, to point this out, virtually every meeting that we achieved these returns with a 3 or 4 percent volatility on an annualized basis.

TIPS is on the next page. This is 3 percent of the assets. The return for the quarter was 2.79, ahead of the benchmark. For the one year period,

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strongest primarily again in flight to quality. And investors on a technical basis buying TIPS on a fundamental basis, looking for a safe haven.

Fiscal year to date is also very strong, that's 772. Longer term, the numbers are looking where we would expect them to be as well.

High yield, we've been talking a lot about, and that is -- at the prior meeting -- that's on page 43. Month is a very strong quarter, because this is a risk asset within the fixed income space, returning 582 behind the benchmark of 605.

Fiscal year we're now back in positive territory. Remember, these two have some equity sensitivities to them. And the one year number is roughly what the quarter number is, 555. The three year number is very high compared to the other asset classes, that's 1845.

To make a comment, I think, at the last meeting that was your best asset class. It almost looked like the downturn didn't happen, that's how quickly it came back and how much the demand was.

Recently, there's been a lot of new issuance in the market, a lot of refinancing because of low rates, and so the managers have been taking advantage of some of the issuance for some of the managers that

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are on the upturn, meaning that they are upgraded.

Convertible bonds are on page 44. We have the old policy which is 1 percent, where the process is moving now to the policy, 3 percent so that's why we see 2 percent. The quarter was 295, where it obviously is very much an equity sensitivity here. The general sensitivity is about 50 percent of the equity market.

We have two benchmarks here. The yellow is the benchmark which is the Merrill Lynch P of A all convertibles index, which we are behind. But if you take the weighted average of each of the managers which had their own separate benchmark, in their own separate bond in this convertibles universe, you're actually ahead.

And this is illustrative of what we've been talking about in convertible bonds, where the overall index over a market cycle, we expected managers could beat the benchmark. But in an up market, we expected to be behind. But in this case, they actually all beat their benchmarks, but they were never left behind the overall benchmark. And that's because the overall benchmark has the higher equity sensitivity, and our managers are a little bit more sensitive.

That is born out by the next number, which is fiscal year to date, minus -- we're not proud of the

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minus -- 776. That's obviously improved in January and February, the managers were ahead of the benchmark. And that's because of their defensive posture, and the same thing for the 12 month period.

The next page is page 45, Kathy will talk about ETI.

MS. MARTINO: The ETI portfolio is shown there. This is a steady performer, and although did underperform for the year, did outperform both of its benchmarks for the longer period.

As always, in your board packet are the collateral -- starting at page 8, where it shows where your dollars are invested in New York City.

A couple of highlights. You invested $4 1/2 million in the last quarter, in four projects in Manhattan and Brooklyn, $312 million. And the AFL-CIO Housing Investment Trust put up $12 1/2 million in new apartments in the Work Force Housing portfolio.

Are there any questions?

MR. GANTZ: One last thing I just want to put on for the record. A page here that we'll put in the next quarter that was in prior quarter is missed because of the printing deadline, is opportunistic fixed income. Those numbers are in this book, this color book, so numbers are not missing, they are just not here

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because there are some returns -- just like in private equity real estate, we have a separate report for that building, the process of building has a separate report for opportunistic fixed income to get the correct numbers, and we're working with the bank as well. So, if you want to see the numbers, we will go through them in a moment in the context of this. But we we are building a separate report to make sure that we do have correct numbers.

The issue is the old sort of calculating IRR versus the time weighted return. And we can talk about that more with specific managers in executive session, if you want.

That's the story.

MS. NELSON: We are going to continue on to real estate, which is in large board book starting on page 17.

MR. SMARR: Martin, on page 59 and 60, are the one year numbers for Treasuries, is this correct?

MR. GANTZ: Yes. The short answer is yes.

CHAIRPERSON AARONSON: Note for the record that Jaime Smarr came to the meeting.

MR. SMARR: Thank you.

MR. GANTZ: The short answer is, yes, and that is part of the problem when there's risk on and

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risk off. When you look the ten year -- Larry, can go through that in a moment -- when the ten year is on either side of 2 percent, when you have 3 percent inflation, that simply is not a good trade. And certainly when interest rate go up, you're going to lose money on that trade. But this is a safe haven.

So, because there were important parts of the year where investors were flocking to investments that they felt were safe, other than putting money under their mattress in cash, they flocked to Treasuries. And, yes, this is a result of that.

The Treasury portfolio has a duration of about nine years. What that means is, if interest rates go down by 1 percent, you earn... above the coupons. Rates a year ago were twice what they are today in the long end. And that's what the math works out to, sort of numbers are correct.

We expect as the equity market calm down, as you see the January and February numbers, these numbers start reversing, which is actually good for the portfolio, it's healthy. We would not want to see this going forwards, and quite frankly, unless you can have negative rates, it is limited, as we are now down to zero to 2 percent rates, there's limited up side in the Treasury portfolio.

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MR. SMARR: Thank you.

MR. MILLER: We'll go back to real estate. So, if you look at in the board package, that is starting on page 30. Not to spend too much time talking about the market, because in the executive session, Hamilton Lane will be talking a little bit more about that.

But if we look on page 31, target allocation to the asset class for Teachers, it is 8 percent. Today, we are currently at 5.4 percent, so we are under the targeted allocation. From the quarterly standpoint as of the end of the third quarter, since inception, the IRR is 8.21 percent, a multiple of 1.2X. So slightly down from the previous quarter. Part of that had to do with the downturn of the public markets.

Busy quarter and frankly, a busy year with regard to new private equity commitment. Year to date commitments in excess of $280 million. New commitments of BC, AXA, Pegasus QT. What is interesting about that -- and you will see a little bit more in the executive session -- is that if you look at the volatility in the overall private equity performance, you will see a significant uptick in the commitments on the secondary side.

If you look at page 34, it talks a little

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bit about the overall returns on an annual basis on the three, five and since inception basis. What you will see is some interesting swings -- again, not that important, but I'd just like to point them out.

If you look at a one year basis, 13.88 percent return, outperform the public, but underperform the private equity benchmarks. Again, what I've touched on before, I would say it again, private equity to liquid asset class. So the one year, the three years, it really doesn't mean that much. The best way to look at it is since inception.

Since inception 8.21 percent -- if you look at the policy benchmark that has outperformed the Russell 3000 plus 500 by 122 basis points; but has significantly underperformed the private equity benchmarks.

The last two things I would mention on page 35, again try to touch on this each quarter, contribution versus distribution. You're putting in more money than you're taking out. On the second quarter, so the -- the June 30 quarter, put in 969 took out 103, so cash flow positive, significant reversal in the third quarter. Put in 142 only took out 46.

Again, if you look at the private equity markets today, that is not so much. The Teachers issue

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is private equity in general. There just hasn't been as many distributions recently as we've seen in the past.

Last couple of things I would mention, if you look on page 42, what you will see here is what the large exposures are. And one I would point out is the second one, which is Micromeg, which has been sold post record date. So, this will change a little and hopefully we will give a little preview to the fourth quarter. We're seeing some better numbers.

With that, if there are any questions, I would answer that; if not, I will turn it over to Yvonne.

MS. ROMAIN: Are all of these returns gross of fees?

MR. MILLER: Net of fees. Everything is net, but I would say net to the LP or net to Teachers.

MS. NELSON: Great. So, let's go to the large board book, flip that to page 17 and we will start with the highlights of third quarter performance for Teachers real estate portfolio.

As Larry mentioned, we have a reported lag until third quarter... nonetheless has some bearing on the quarterly return that we're going to be reporting.

Teachers has a 6 percent allocation to real estate. The market value of what actually is in the

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ground as of third quarter 2011 is $716 million. At that point, we had commitments that were unfunded in the amount of $384 million, altogether on market value and unfunded basis. Our exposure to real estate is $1.1 billion. So, real estate continues to slow but uneven recovery, despite some of the shocks, the deep shocks we had in the third quarter.

The performance for the quarter was 1.7 percent on a net basis. That was underperformance of about 160 basis points to the real estate Odyssey benchmark on the net basis of 3.3 percent.

Core assets continue to be favored by investors, and so the performance of your co-investments was pretty much right on top of this benchmark. However, your noncore managers, given all of the distress in the capital markets at that time, there was a down pressure on valuations.

So, if you look at the graph below that depicts graphically the performance in the near term and in the long term -- so we had really choppy quarter at 1.7 percent. Looking good for the 12-month period. Underperformance on the three year period. But for the extended period, as Barry mentioned, that's what you want to look at.

On the five-year basis, an outperformance of

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270 basis points; and since inception basis is the same, 7.8 percent net versus 5.1 percent for the index, for a 270 basis points outperformance on a since-inception basis.

So, the next page I just want to go to very quickly is on page 19, which is the portfolio composition. It's just a snapshot of where we were at third quarter. Again, with 6 percent allocation to real estate, that would translate to $2.3 billion allocation in terms of investments styles. The IPS has some flexibility with respect to core strategies and noncore strategies of 40 to 60 percent.

And where we actually are today, which is in the table that is labelled Funded and Committed to Statistics, will show that the portfolio at that point is 41 percent core and 59 percent noncore. Now, within that noncore are the opportunistic managers is in addition to the emerging managers. So, as of third quarter, we were 1.8 percent invested, 2.9 percent committed, with a portfolio of 11 core investments and 23 noncore investments.

In terms of new investment activity, it was a tough year for real estate managers to raise money. Overall, the fund raising number is slightly under $50 billion. New York City, including the Teacher system,

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is very, very active in some of the new investments that we made. But I can tell you that the commitments that were made to Taconic and Carlyle 6 is $70 million. Each had both closed.

Lastly, we're just moving on to page 19, which I kind of call the report card. These are the risk metrics that you all have decided that are important to the program and which we have to strive to operate the program under. And for this particular quarter we are in full compliance with regard to the benchmark, the portfolio competition, allocation, diversification. Even LTV, 50 percent back in that. And manager exposure, are all the same guidelines.

The last page, of course, if we have any questions, shows you the diversification of the portfolio both on the property type basis and also below that on a geographic basis where we were. We are about 4.3 percent non-U.S. at this particular point. We can talk a little bit more about specific managers later on. If you have any questions right now, I'm happy to address them.

CHAIRPERSON AARONSON: Any questions?

That concludes the --

MR. SCHLOSS: -- end of the quarterly update.

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CHAIRPERSON AARONSON: I just want to say in listening to this report and what it shows, it made me feel very good that we have the kind of staff over at the Comptroller's Office and the BAM unit, that is serious with investors. And the Comptroller has done, I think, a great job in helping us to make sure that our system is funded so we can meet our obligations to all members. So, I want to thank the people in the Comptroller's staff for the fine job. That's it.

MR. SCHLOSS: Thank you, Mel.

CHAIRPERSON AARONSON: Thank you.

MR. SCHLOSS: Thank you, staff. Great job all around.

CHAIRPERSON AARONSON: And that goes up to almost the top of the --

(Laughter.)

MR. SCHLOSS: Let's go to January, because that was the last quarter. So old news, right?

So, quick run through the economics. Pretty much everybody can sort through the slides. So, I would say on page 3, the blue line, now this is the problem. GDP is growing slowly by any historical measure.

MS. ROMAIN: It's going in the right direction.

MR. SCHLOSS: Exactly. We call it 2 percent

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through 3 percent, that's just not going to work. But, our guesstimate -- the market guesstimate is we have another year of muddle; right?

The good news on muddle, if there's good news, is on page 6. It's a little bit muddly; but as we said in the last couple of months, it's sort of trending down. So whereas, last fall, last year, we are talking about $400,000 a week, now we are 350-ish. So it's trending down.

And that trend continues to the next page which is the unemployment rate, which is hopefully 9 again, on its way to 8-ish.

I'm a little troubled by page 10. Page 10 is sort of looking forward, to start the billing index. We talk about this every now and then, you've got to stay above 50. It is kind of a little above 50. I'd rather have 60 than 51 or 52, and it's kind of flattish.

But again, this is sort of looking forward, because, again, you hire an architect before you spend any money on the construction. And as our real estate managers are telling us, there's so much distressed real estate that you don't need to build anything. So that's bad for the jobs forecast going forward.

The other thing bad for job construction going forward is on page 11, which is the blue line,

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which is housing prices. Both things have to go up for people to decide to build more. Again, it is slowly getting better, but it's just too slow.

Again, if you quickly go through this, all the pictures tell their own stories. The interesting story -- what I would tell you is probably on page 22. We had a very, very difficult fall, because of all the problems in Europe. The Europeans finally came up with a good idea, which is that the ECB gives three-year loans for free, basically. If you're a bank, come and get it in any collateral you have got, we won't be too picky. So they've gone and done that twice now.

So, the result of that is the banks basically cleaned up their balance sheets a little over these three-year loans. And used the proceeds of three-year loans to buy government securities, typically in your own country. And that's made the Italian and Spanish prices go up and yields to go down, sustainable because they have a lot of refinancing to do.

And that was started in December and again probably this week. The combination of those two has calmed everybody down.

So, the good news is they've taken the right step. But what the step did is, it took care the liquidity crisis solvency issues. They didn't solve the

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debt problems. You've still got debt, it just means the banks are a little more liquid and they can help. So, they still have problems in Europe. But the problems are not as acute as they were in the fall.

So, just a release of anxiety of the train going off the tracks, compounded with everyone agreeing to the latest Greece bailout, terrific for all the markets. January is up, February is up. But again, it's not all fixed, but it's fixed a little like they put a patch on it.

Some of us also believe that, you can fix Greece today, but look at the long term numbers, they are not going to make the long term numbers. So Greece will be back for another renegotiation or need more capital. And right behind it is Portugal, the same kind of problem.

So, there's much more problems in Europe that are not solved. But again, from going off a cliff, which was the feeling in the fall, we're not going off the cliff. So, again, that made people feel good, the banks in Europe. The relief rally kind of happened in December, January, February.

And the Fed said it keeps the rates low through 2014, so that's done again. If you just flip forward then, great things were taken in the private

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equity market on page 24, you've got ten-year rates flatlining 2 percent. A little bit below, a little bit above.

But again, what has people piling into the government for ten years for safety reasons, they've all piled out and the rates have stayed the same, which means the government is trying to keep the rates low. And they said they are going to do it, so that's good.

So, if you look on page 25, the high yield market, which to us is high yield plus fixed income, so it's probably 5, 6, 7 percent of our portfolio. You can see the stress coming off and the spread is coming down. We still like the high yield market a lot. I will get to that in a second. So, spreads are narrowing again, all of which is good.

If you look on page 27, one of those bright spots, a continued bright spot, is corporate profits continue to go up, the blue line again.

MS. MARCH: Maybe we need to have the corporate profits put the people back to work.

MR. SCHLOSS: Ideally. The bad news is that a part why they've got corporate profits is they laid the people off; right? So, at some point, the opposite happens, corporations are sitting on cash, billions of cash. So, it will recycle around as people

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feel comfortable. One of the issues that you're going to have slowly in corporate profits is, to the extent that people in Washington, D.C. start talking about tax changes. This change -- change is uncertainty, people don't know what to do, they don't make investments, so things are going to stay slow. They help the muddle. It will not help the muddle, it will perpetuate the muddle.

Not to say that tax reforms can't be good, but if you don't know quite what the tax deal is going to be, you might just wait to see it. So, that's really going to be next year, you are going to find profits going up, investments not going as fast as it should, as cash piles up.

CHAIRPERSON AARONSON: So, this cash, they have it invested in paying the bank to hold the money for them.

MR. SCHLOSS: Yes, they have invested in CDs. Just piled up, not in the stock market, just in their accounts. Again, if there was a normal time and an expanding economy, they'd invest in jobs, they'd invest in plants. It's just sitting there.

CHAIRPERSON AARONSON: Public employee pensions are too high.

MR. SCHLOSS: So, if you look on page 28,

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what you see is -- again, this is Russell 3000, EAFE emerging markets, the key number is numbers in the right. There are pretty low. So the stock market, I'd like to think, barring any accidents along the way, should continue to trend upward.

Same thing on 29, the same thing, large cap, small cap, mid-cap. This does translate to page 30, where you see, the dates are hard to tell, but it figure out how to read the dates, the trending up basically happened when the VIX went down and the ECB started flooding the market with these three-year loans.

Of course, the problem with three-year loans is, three years comes and what do you do? So that is -- don't worry about that too much. But at least they did something, which was good.

So, where does that leave Teachers? On page 32, at the end of January, we're about $42.6 billion. I'd say by March we're probably at the 43 and a half, trying to catch up with the peak which was last April, which was 43.7. So, if we get a little break in the thing, things stay calm, by March we're at a new high again and we're looking forward.

You can see it again on the longer term picture on page 33, Annual Chart. So, again, they're right at the high for where we've ever been at Teachers.

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If you look at 33 and 34, you'll find yourself at 36. As Martin was saying, we have all these different pie charts now, which we're going to build out the old allocation and new allocation and new allocation with the adjustments for where do you put money when it's not where it's supposed to be. It's still a work in process.

So, what you find in here is, we're overweight a little bit in U.S. public equities, which we'd like. We're a little over EAFE and a little under emerging markets. We'll clear that up. Recall that we just finished an emerging market RFP two months ago, so we've hired the managers and we're transitioning money over there and we have a lot of money to move, so that will take us months to get up to our allocation.

And while we're doing that, depending on the time, we'll sell down our EAFE a little bit. So, we have a plan for that.

The REITS were -- we think there's good money in REITS, they even though being overallocated.

The cash number, it's 4.5 percent at the end of January. It's -- we all look forward to the end of February, we're less than 2 percent in cash now. That was -- 1 percent was invested in high yield, a half percent was invested in BERDS. 1.2 percent was, again,

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that starting to fill up our emerging markets and we had a little bit of opportunistic fixed income. So, all that gets to less than 2 percent.

And, again, the less than 2 percent will be taken up primarily by a combination of moving equities into emerging markets and the opportunistic fixed income contracts being signed and the managers funding. Similarly, as Barry mentioned, where it has negative monthly cash slows in private equity. So, again, the cash is working its way back to zero.

If you go to page 27, kind of like at the bottom line, which is this last chart at the bottom. It shows that the target is sort of 60. It's called 63.37 before it gets to adjustments. We're a little overweighed in equities, so we're 67.33. Again, with the markets popping up, that should be good. So, we should be in the right spot.

If you look on page 38, as Martin mentioned, January is a good month, February is also a good month and all the February numbers closed yesterday. But, again, the U.S. domestic markets were up 5-ish percent, EAFE emerging markets were up more. Fixed income markets were also up. Again, the reason they were all up is because the ECB acted in December and everyone has been through getting their heads around how good that

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is.

So, if you look on page 39, it made a little less 4 percent in the bar chart on the left, in a month. Makes our full-year numbers through January to about break even. February is up a couple of points, so we're probably up a couple of points. End of February, we got four months left to get to our 8 percent. And we are mildly optimistic, because I also think we'll get the good markup right up to the real estate and good writeups in private equity, but we'll see.

There's a lot of various political noise going on in the Middle East, so who knows? We're going to curb the position pretty well of everything that's happened. The rest of the managers by manager summary -- Seema, anything on managers or no?

MS. HINGORANI: No.

MR. SCHLOSS: Martin?

MR. GANTZ: No; not at this time.

MR. SCHLOSS: Barry?

MR. MILLER: No.

MR. SCHLOSS: Yvonne?

MS. NELSON: No.

MR. SCHLOSS: Excellent.

(Laughter.)

That's January. January was great.

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February is going to be great; and on to March.

Questions?

With that, that ends our agenda for the public session.

CHAIRPERSON AARONSON: So, now --

MS. MARCH: I move that under Public Officer Law No. 105 that we move into executive session for the purpose of discussion of sales and securities.

CHAIRPERSON AARONSON: Do I hear a second?

MR. SMARR: Second.

CHAIRPERSON AARONSON: Any discussion?

All those in favor?

(A chorus of "Ayes.")

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

MS. EMERY: I move that we exit executive session and enter public section.

CHAIRPERSON AARONSON: Any discussion.

Ready to vote? All in favor say "Aye."

(A chorus of "Ayes.")

Opposed?

We are now out of the executive session and in public session. And we would like to report on what went on in the executive session.

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MS. STANG: In the executive session of the variable funds, presentations for two custodial providers were received. A decision was made, which will be announced at the appropriate time.

In the executive session of the pension fund, a presentation on the emerging manager of manager's program involving equity and fixed income from markets was received. Consensus was developed, which will be announced at the appropriate time.

As overview of the real estate portfolio and performance was presented. Our real estate investment was presented and discussed. Consensus was reached which will be announced at the appropriate time.

There was a presentation and discussion about the private equity portfolio and certain investments in the portfolio.

CHAIRPERSON AARONSON: Any questions?
So, a motion to adjourn?
MS. MARCH: Moved.
MR. SCHLOSS: Second.
CHAIRPERSON AARONSON: Any discussion?
All in favor say "Aye."
(A chorus of "Ayes.")
We're adjourned.
(Time noted: 3:09 p.m.)

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

I, Jeffrey Shapiro, a Shorthand Reporter and Notary Public, within and for the State of New York, do hereby certify that I reported the proceedings in the within-entitled matter, on Thursday, March 1, 2012, at the offices of the NYC TEACHERS RETIREMENT SYSTEM, New York, New York, and that this is an accurate transcription of these proceedings.

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

____
JEFFREY SHAPIRO