NEW YORK CITY TEACHERS RETIREMENT SYSTEM

INVESTMENT MEETING

Held on Thursday, March 3, 2011

at 55 Water Street

New York, New York

ATTENDEES:

MELVYN AARONSON, Chairperson, Trustee
LARRY SCHLOSS, Comptroller's Office, Trustee
SANDRA MARCH, Trustee
MONA ROMAIN, Trustee
RANJI NAGASWAMI, Office of Management and Budget
JANICE EMERY, Office of Management and Budget
LISETTE NIEVES, Comptroller's Office
THAD McTIGUE, Comptroller's Office
MARTIN GANTZ, Comptroller's Office
JOHN DORSA, Comptroller's Office
SEEMA HINGORANI, Comptroller's Office
MARC KATZ, Teachers' Retirement System
YVONNE NELSON, Comptroller's Office
JOEL GILLER, Teachers' Retirement System
SUSAN STANG, Teachers' Retirement System
ROBERT C. NORTH, JR., Actuary
MICHAEL KOENIG, Hamilton Lane
MARIO GIANNINI, Hamilton Lane
DAVID MORTON, Rocaton
CHRIS LYON, Rocaton

P R O C E E D I N G S

(9:41 a.m.)

MR. KATZ: Good morning and welcome to the March 3, 2011 investment meeting of the Teachers' Retirement Board. We will begin by taking the roll.

Melvin Aaronson?

MR. AARONSON: Here.

MR. KATZ: Kathleen Grimm not here.

Sandra March?

MS. MARCH: At long last present.

MR. KATZ: Welcome back.

MS. MARCH: Thank you.

MR. KATZ: Ranji Nagaswami?

MS. EMERY: Janice Emery.

MR. KATZ: Janice Emery sitting in for, okay.

Lisette Nieves?

MS. NIEVES: Here.

MR. KATZ: Mona Romain?

MS. ROMAIN: Present.

MR. KATZ: Larry Schloss?

MR. SCHLOSS: Here.

MR. KATZ: We have a quorum. The first order of business is to nominate an acting chair.

MS. ROMAIN: I nominate Mr. Aaronson.

MS. EMERY: Second.

MR. KATZ: Second.

Mr. Aaronson, you are in business.

MR. AARONSON: We will start with the pension public session.

MR. SCHLOSS: Martin, would you like to review the results?

MR. GANTZ: So we have a flash report here for the period ending January 31st. Everyone should have copies in front of them. If you don't, we certainly have extras at the other end of the table.

January for the month was generally a good month for positive returns. The overall fund was up about 1.6 percent for the month of January. U.S. equities were up about 2.2. The emerging markets were up about 2.7. Developing markets up 2.4. REITS did very well at 2.5. The core plus 5 and TIPS were roughly flat for the month as rates rose a little bit. The big increase in rates happened in November and December. High yield and convertible bonds did well. Investors continue to search for yield and convertible bonds are sensitive to strong equity returns.

Overall, the funds' value was at 40.977 so now over 40 billion and the net of fees the return is 17.85. The increase in market value from the end of fiscal year is now over $6.2 billion. You will see the fiscal year-to-date returns on an absolute basis across the third column of numbers and they are well into the 20 percent range. Total equity is 25.06.

Fixed income are still positive for investment grade, although we had two negative months in November and December, and we are ahead of the benchmark as well. TIPS are a little under 2 percent. The high yield and convertible bonds continue their strong run and opportunistic fixed income is also doing very well. Total fixed income is at 4.63. And so, generally, a good month. And as a sneak preview, February was a pretty good month too.

MR. AARONSON: Anybody have any questions about the report?

Continue doing this in the future. That's an order.

MR. GANTZ: Thank you.

MR. AARONSON: Okay, is that --

MR. SCHLOSS: Now, we have the quarterly report.

Martin, do you want to sit in my seat.

MR. GANTZ: I am going to sit over here.

MR. SCHLOSS: Does everybody have a quarterly?

MR. GANTZ: So this report is for the period ending December 31st. And during the quarter the Russell 3000, the U.S. equity market as we measure it was up 11.5 percent per quarter. Very strong quarter. Interestingly it's the same increase that we saw in the quarter before, so there were two consecutive quarters of 11.5 results. Obviously that gives you very good results for fiscal year to date, which you just saw on the flash report. Developed markets were up over 6 percent for the quarter.

In fixed income you will recall back in November the federal reserve announced their long and widely anticipated quantity EASE program. In advance of, that treasury yields had been bid down. The prices bid up and after the announcement the markets sold off and the rates for ten year, for instance, went from below 2.5 percent to nearly 3.5 percent where they are roughly today. In the more risky asset classes within fixed income such as high yield and convertible bonds, the returns were very strong. As investors search for yield and convertible bonds you have sensitive to equities. Generally, our rule of thumb is 70 percent of the upside and that's pretty much what we saw. So generally good quarter, as you will see on page 9. By the way, U.S. equity small cap did better than large cap by a nice margin, by about 16 percent to 11 percent and value slightly ahead of growth.

So if you turn to page 9, you will see the overall returns for the retirement system. The blue bar is the pension funds, the retirement system's return for the quarter are a very healthy 6.63 percent. The fiscal year to date and one-year numbers also very strong at 16.11 and 13.92 respectively. The returns were behind the benchmark and we will go through that in a couple of pages. You will also note the three-year number is now slightly positive. It had been negative for a while, so the strong returns are finally taking the better market numbers that we saw in '08 and '09 and turning them around to the point that 15-year numbers are back up to 7 percent.

The next page shows where the asset mix was as of December 31st. The pie chart, of course, are where your assets are invested. And if you look at the table on the bottom, what jumps out is the green bar that we are underweight private real estate and the red bar where we are overweight U.S. equity. To the extent that we have not invested the policy in private real estate, we are putting that money in public equities. We are also slightly underweight of developed markets EAFE and we are slightly underweight the core plus 5. Overall, the pension fund was at 40.3 billion and was about 69 percent total equity, so we are just about at the policy rate.

Now, the next few pages show some attribution of returns and we break it down to allocation effect and management effect. The allocation effect were what the results were due to being underweight or overweight policy and the management effect is how the managers did versus their individual benchmarks.

Generally speaking, you are going to see in the slides that we show the managers did very well except in two areas and that's generally the private markets, private equity and real estate. Part of that explanation is private equity because of a lag effect when you have very strong market results in the public markets there is a lag effect. Part of it is because funds underperform.

The allocation effect for the quater was 27 basis points negative and that's partially due to the underweight, slight underweight, at this point in equities and during a strong bull market any underweight in your highest returning asset class will have an effect. The managers were negative 9 basis points and you will see in future points due almost entirely to private market, not public markets.

For the one-year period on the next page, the net result was minus 9 basis points but you see the allocation effect was minus 1.08. The managers did very well, 99 basis points for a net of 99. The allocation effect was more pronounced here because we were more underweight equity during 2010. That underweight is now virtually gone; we are roughly at policy now. The numbers smooth out over three years because we had the up and the down market. The allocation effect, the managers effects now smoothed down a little bit and negative 23 for allocation, positive 15 for management. The result was a negative 8 for the system.

And the totals are on the next page summarizing how the managers did. And if you just scan the page, you will see mostly positive numbers; some small, some better. EAFE managers did very well. Core plus 5 and high yield did okay. REITS did okay for the year. And the negative numbers that you see are in the private equity of real estate. I would explain the quarter and 12-month numbers for private equity being the lag results. I would explain the longer-term numbers being under-performance in general.

Page 15. Sorry, again these numbers are very, very small on this page but if I can direct you to the left side, that shows how Teachers did versus other large public funds and we define that as funds greater than 10 billion. How they did for the quarter ending December and the fund was in the top quartile, in the 20 percentile. So that was very good. You will also see as you move out to the right side of the page how Teachers did in the longer-annualized numbers and, generally, the results were at or below the median.

And the next page shows --

MR. SCHLOSS: I would point out on page 15 for the one year, you are also in the top quartile. Congratulations.

MS. MARCH: Congratulations to you.

MR. GANTZ: So the explanation as to why you go from top quartile to a roughly median is shown on the next page. If you look at the right side of the page it shows that each year, each calendar year at this point end of December, year by year going the last five years and for the last year you were in the top quartile. December, '09 you were doing very well in the 30 percentile. In December, '08 you are roughly median. Skipping December '07 and December, '06 you are doing very well. There was the December, '07 number and generally speaking that year being in at the bottom of the quartile rankings affected the longer-term numbers, but for the markets where equity markets did very well. Since the fund is very exposed to certain U.S. equity, when the U.S. equity markets does well the fund does well and those are the times the fund did well.

So page 18 shows a total equity allocation. The pie chart which the big piece, of course, is in red and that's the U.S. equity portion. That was about 64 percent. I mentioned before the fund was about 69 percent total equity and that represents 27.8 billion. The total, of course, is now over 40 billion.

The next page breaks down the total equity and you will see the pie chart again in red. That simply indicates that most of the assets are passively managed. We do have some active management here and if you take a look under the "Index" and "Actual Return" columns on the table, you will see that small cap had a very good quarter in the 16 percent range. Large cap was in the 11 percent range. If you had mid cap, you would see that would be in the 13 percent range. Small cap did better than large cap in this particular report.

Page 20 shows how small cap returns did. So the fund has a small developing manager, small cap program and the results here are you are going to see very consistent charts. Going to be repeating myself, but for the quarter fiscal year to year in the equity space you are going to see very strong absolute level of results. In this case in small cap they are very high because small cap outperformed most other asset classes and, in addition, the managers beat the benchmark. So these are just very good numbers overall. Over 35 -- actually, exactly 35 percent for the fiscal year to year and over 29 percent for the one-year period and even just the quarter was over 18 percent, and the numbers are well ahead of the benchmark.

Large cap develop -- again, this is a

developing program on page 21 and the period of results again are very strong on an absolute basis, but we are behind the benchmark for the quarter year. But the results were very strong on an absolute basis.

Teachers has an emerging managers/manager program in U.S. equity and that's shown on page 22. And the results here are ahead of the benchmark, very strong and part of that is because the results were helped by small cap and mid cap. You have a couple of small cap and mid cap programs. And the small cap and mid cap programs in recent periods have done well and the benchmark as well, and so the numbers are very strong.

The single largest program that you have here is the passive Russell 3000 program on page 23 and here that's 42 percent of the asset for 16.8 billion. And, as expected, the results closely matched in return at risk what we would expect to see and, as I mentioned before, very strong on an absolute basis. The three-year number, however, is still slightly negative, minus 1.84. But the results, except for the quarter which was behind by three basis points, were slightly ahead of the benchmark for other long-term periods and that's what we would expect in this program.

The next page shows total domestic equity and obviously this page is dominated by the pages you saw before. The passive numbers drive the numbers on this page. International starts on page 25, 15 percent of the assets are invested here. That's a very lonely pie chart on top and that's because all the assets are actively managed. And the bottom part of the chart shows the diversification between values shown in light green, growth shown in purple. I don't know from other shades, but looks like purple to me.

MS. MARCH: Magenta.

MR. GANTZ: Magenta. And core is shown in red, so the results are on page 26. The results are slightly less than the results that you saw in U.S. equity market and that's partially due to some of the problems that we have seen over the past year in the euro zone. But it was a very strong quarter on an absolute basis, very strong fiscal year. 7.07 for the quarter, 23.97 for the year. We were slightly ahead by 46 basis points for the quarter, slightly behind the fiscal year by 21 basis points. But when you go out from the 12-month period, which is 11.14 out to inception at least, that would show 15 years the results are well ahead of the benchmark.

REITS are on page 27 and we do have a separate program for REITS. Four percent of the assets are invested here. This continues to be a strong area and also the managers continue to do very well in this area, ahead of the benchmark by 22 basis points for the quarter returning 7.89 ahead for the fiscal year and well ahead for the year by over 300 basis points returning 32.10. And if you go out to the inception of the program which is exactly eight years as of December 31st, the program has returned 12.94, 169 basis points ahead of the benchmark. This is a program that performed very well.

The last equity slide we have shows the activist and environmental managers. Strong results overall on an absolute basis and well ahead of the benchmark, but the longer-term numbers you will see the five-year number here was behind the benchmark and this represents 1 percent of the fund.

So unless there are any questions, we will start talking about fixed income which is starting on page 30. About 31 percent of the fund is invested here, a little over 12 billion. The pie chart in red shows the investment grade core plus 5 program that dominates about 53.7 percent of the overall assets, but we are diversified in other asset classes, namely high-yield TIPS and convertible bonds. Now we have opportunistic fixed income shown in pink as well.

We break down the core plus 5 by sector on the next page, page 31, into three sectors. One of the sectors is labeled "Agency." It really should be government or treasury agency. The core plus 5 allocation that you see, we now see some negative numbers for the first time. And that's because during the quarter when the quantitative easing program was announced, the market sold off. Quite frankly, that was a little bit counterintuitive what we were expecting when the program was announced. So, we do finally see some negative numbers. The benchmark is down about 5 percent, 4.9. Managers were 17 basis points behind. Investment grade credit managers were also behind by about 1.4 percent and that's because they have some more sensitivity to duration or interest rate risk. Mortgages, however, outperformed and actually posted a positive number. We have looked back at previous market cycles when we had sharp rises in long-term rates and this is consistent with what we expected and what we would expect and what has happened in the past, and that's because primarily mortgages have a shorter duration which has less interest rate sensitivity. So when interest rates go up, there is less downside to the mortgages. On the other hand, when interest rates go down, there is less upside. So, the volatility of returns is quite muted.

The returns overall are on the next page and the program overall had a negative return at minus 1.02. That was 57 basis points ahead. Fiscal year to date is a slight positive, 1.96. The one-year number was very strong at 8.58, well ahead of the benchmark.

Longer-term numbers were all roughly about 6-1/2 percent. And if you take a look at the chart on the bottom you will see that the volatility returns, unlike equity which are even higher, are roughly in the 4 to 5 percent range. I mentioned mortgages before. Mortgage sector has volatility returns generally in the 2, 3 percent range.

TIPS are on page 33 and similar to the core plus 5, these were effected by rising rates and so showed negative returns for the quarter by minus 1.11. Fiscal year is positive at positive 1.71 and the one-year number is at 6.47, ten basis points ahead. The long-term result since inception are at 5.51, 17 basis points ahead. High yield did very well, so high yield did very well even in the face of long-term rising rates. I just mentioned before that investment grade credit has a closer sensitivity to interest rates because of the higher duration. High yield has lower sensitivity to long-term rates, although they can be effected because of macro reasons in if rates go high enough. But in the most recent environment, in this quarter investors are searching for yield. The rates going up did not impact the returns negatively because spreads continue to contract resulting in positive returns of 2.89 and that was 32 basis points ahead of the benchmark. For the fiscal year it's very strong, 9.29 and for the year to date 13.43. You will note since inception, which is ten years, the results are also ahead of the benchmark for all the periods shown.

Page 35 shows convertible bonds returns and while the results are very strong on an absolute basis, because these returns are very closely related to how the equity markets did, if equity markets did very well these returns should do very well. However, the results were behind the benchmark as a program for each of the periods shown.

Strongest fixed income returns are shown on the next page and the blue bar our performance is clearly well ahead of the benchmark, over 5 percent for the quarter, over 8 percent for the fiscal year and over 23 percent for the one year. This has been sort of a wonderful Goldilocks place to be because --

MS. MARCH: What are they doing that you are not supposed to?

MR. GANTZ: They are doing what we expect them to do, but the market environment is helping a lot as well. So sometimes being in the right place helps. And so while the managers themselves are doing a good job, it is a really good environment for them. Over the period generally, rates were falling were low and accommodated and it was a great opportunity to take up securities that were creating a very aggressive price.

Finally, on page 37 the economic targeted investment returns are shown. And Cathy Martinos is sitting right next to me and will give you more information about that program.

MS. MARTINOS: Good morning.

MR. AARONSON: Good morning, Cathy.

MS. MARTINOS: Your ETI portfolio did well in the quarter, outperforming both its custom and benchmark for all periods and for most periods.

If you want to turn now to page 7, I

will go through a couple of highlights. Does everyone have one now?

First page is your Public Private Apartment Rehabilitation Program. Couple of highlights. We made over $7 million in new purchases in four of the five boroughs and issued another 8-1/2 in new commitments for the five boroughs.

Page 8 shows the tracking AFL-CIO Housing Investment Trust in New York City. Big highlight is that they invested $90 million in a project in Manhattan during that quarter.

The next page, 9, is your Workers' Housing Initiative with HIT. There is no change there in that quarter.

Page 10 shows the CBC revolver and where that facility is invested in construction loans in the five boroughs, you can see that on the chart.

Page 11 is access. There is really not much change there. They continue to perform well.

Page 12 shows you performance by manager. Again highlighted here, the program does very well in this environment because the average coupon is over 6 and we are getting delivered high-interest loans because it's a forward commitment program, so it's kind of interesting.

Any questions?

MR. AARONSON: Seeing none. You have anybody -- real estate.

MS. NELSON: So in the board book, the large one, let's move onto page 16 and we will talk about the highlights of the performance of the real estate portfolio for the third quarter 2010.

The portfolio at that time had a market value of $454 million. We had about $336 million which is committed but unfunded, ready for the managers to invest in this recovery and to the --

MR. AARONSON: Where is that money invested now, Yvonne?

MS. NELSON: I think, as Martin mentioned, in equities right now. So not bad, not a bad parking place. So all together the activity represents close to $800 million.

In terms of performance, I feel a little bit better following up Cathy because we had another positive quarter, 6.3 percent for Teachers. 110 basis points ahead of the ODCE real estate benchmark. So in terms of the performance of the real estate portfolio for Teachers in the near term and overextended periods, at this particular point in time we only have one period in which we underperformed and that's kind of right in the middle of where the crisis was. That three-year number, as you can see down at the bottom, is where we underperformed. But other than that, we have surpassed the benchmark by at least a 100 basis points in every other quarter.

In terms of the market environment in third quarter, there was still continued signs of a real estate recovery underway, although it's slow. But, there are a couple of positive points. Transaction volume for 2010 has kind of picked up, twice the amount over the level of 2009. Lenders are lending again. There has been some easing of credit, but let's kind of talk about where those deals are getting done. Both the investors and the lenders are definitely focused on high-quality property and what I mean by that is really the core property. The low-risk properties, the ones that have high quality, high tenant, rent rolls that are in prime markets. So if you kind of look over that transaction value that I am talking about, most of them took place in prime markets including New York City, New York, D.C., San Francisco. So that's where most of the activity is. However, if you have the special skills to be able to deal with a vacancy issue, then you are able to achieve a pretty good yield for those people who are willing to pursue those types of opportunities such as the noncore managers that we have, and we will see that they have also picked up in some investment activity.

So just moving on, the following page is just a graph, you know, of the Teachers' performance versus the benchmark which is now the ODCE and the net basis. As we move onto the next page, it's really just an overview of how we see the portfolio being constructed in terms of what our policy is. As of third quarter, there is a 5 percent allocation to real estate, equates to an allocation of close to $2 billion.

The next section just talks about by policy, how we see the portfolio diversified in terms of the risk we want to take. And in terms of investment style, that 40 percent could be allocated to core and the remainder being allocated to noncore strategies including emerging managers of which Teachers is active, has commitments to three emerging managers at this point.

The next section just kind of talks about where we are today. We talk about how in the first page we had dollars in the ground and commitments yet to be funded, about $800 million. If you kind of look at that in terms of strategy, we are at about 36 percent core and 64 percent noncore. And as we build the program, you know, those dynamics are kind of going to bounce back and forth.

In terms of investment activity down at the bottom, it kind of summarizes cash flows between the managers and the Teachers' System. You will see you contributed about $30 million to managers for the quarter. Interestingly enough, got some money back this time, $10 million, which is a good thing. A good, healthy flow between the managers and TRS.

The following page is just a kind of report card on the program, just kind of taking the highlights of what's in the IPS. We talk about the fact that you are performing in excess of the benchmark. We talk about where we are in terms of investment style, core and noncore, 36 percent and 64 percent. We are funded at 1.2 percent at this particular point. And, as Mel pointed out, the uninvested part is in U.S. equity, which was his question. The only area where we are quote/unquote out of the policy is in the LTV. We have a debt value of about 58 percent. IPS currently talks about 50 percent level and this is not surprising given the credit crisis and the kind of challenges that have been faced in all asset classes, not just real estate. In terms of manager exposure, we are within those guidelines.

Lastly, the next page shows you where the portfolio is, where we are invested on property type. The Teachers' portfolio is represented on the left side and ODCE is represented on the right side, so we are doing pretty good at this point.

And if anybody has any questions --

MR. AARONSON: Any?

No questions. Thank you very much.

MR. SCHLOSS: Who is doing private equity?

Barry. This is Barry Miller. He is the new head of private equity of asset management.

Barry, do you want to do a quick overview of your background?

MR. MILLER: Sure.

As Larry said, my name is Barry Miller. My background briefly is prior to coming to the City, had my own private equity firm focusing on the private equity secondary market.

Prior to that, I spent three years at a firm called Pomona Capital which is owned by ING investment and services firm. I was one of several partners there focusing on the sourcing and execution of private equity secondary transactions as well as investing capital on behalf of the ING insurance companies. Just to kind of give you a little bit of perspective about the firm, about 6 billion in assets. Three businesses was primary, so invest capital on behalf of insurance companies and secondaries invested capital on behalf of a third-party's funds and co-investing, investing side by side with a lot of our private equity managers.

Prior to that, I spent seven years at AXA Private Equity. There I ran the New York office. Again, to give you perspective about size of assets under management, about 25 billion. Similar story to Pomona, invested capital on behalf of the AXA insurance companies as well as secondary investing on behalf a third-party funds. There I sat on the Global Investment Committee, which is the investment committee for all private equity products except our direct business.

And prior to that, I spent two years at DLJ where I didn't know Larry, and there I worked on their private equity funded funds.

MR. AARONSON: And, Barry, where did you grow up?

MR. MILLER: Where did I grow up? I grew up in New Jersey.

MR. AARONSON: And did you go to public schools in New Jersey?

MR. MILLER: I did both. I was a hybrid. Then I went to Tulane.

So that with that, I give you kind of a brief overview of the private equity portfolio, where we are. I will keep it relatively brief because you will hear a lot from me later in the day.

So if we look at the market today, the market clearly continues to change. The fundraising market today is better than it was last year, but still it's not great. I think if you look at private equity fundraising, what you will see is high-quality or top-quartile managers are raising capital today. Managers that are second quartile either have been underperforming or having a difficult or challenging time.

What we will see, again as we talk a little bit about the portfolio and the performance and so forth, the big issues for managers in the market today and the big issues for a lot of limited partners today is a lot of the earlier funds are unrealized. It's unproven how managers are going to perform and as a result, it's becoming a little bit more difficult for investors to decide which managers are going to back going forward.

If we look at the exit market today, the good news is it's getting better. The not as good news is it's coming off of a relatively low level. The past few years, as people have seen in this portfolio, in the balance of the private equity markets there have been limited distributions.

That being said, the market is beginning to change. The IPO market is beginning to open. There are more opportunities for us to cede to capital positions, secondary buyouts and as a result, as I go in a little bit more detail into the portfolio for yourself, you will see the distribution pace continues to increase. The flip side of that is the contribution pace continues to increase, but the good news is the money needs to work for you. And as a result if we look forward over the next few years, we will see more and more distributions coming.

If you look at the overall cash flow trends in the market, this is very similar to what we are seeing in all portfolio. And the good news is, and Larry will go into more detail in the economy and so forth, at least today on the surface the outlook is modestly positive. If we look at the overall portfolio now from IRR standpoint, the portfolio has increased for over a quarter 100 basis points to 6.83 percent. The multiple has increased from 1.1 to 1.2. So, clearly moving in the right direction.

As I touched upon before, in a macro level the capital call and distributions for the portfolio capital calls for the quarter was 109 million, 88.8 million in the second quarter. The pace of distributions decreased nominally from 46 million to 41-1/2 million. But if we look forward to the fourth quarter, distributions were almost a 100 million. So, we are clearly moving in the right direction.

The portfolio today is mature. It's not a seasoned portfolio. If you look at the overall commitments in the portfolio, roughly 60 percent of the capital has been drawn down. So as we look going forward, that number will continue to increase. But, again, it takes time. Money has to be in the ground and that's when we start seeing exits in the future.

Overall, if we look at it from the quarter, the program appreciated by $80 million or approximately 4-1/2 percent. So we saw real growth in value. If we look at from a commitment standpoint, no new commitments were made in the third quarter. We made one new commitment in the third quarter which is Trident, 35 million. Again, if we look at the overall portfolio and we think about diversification, what the portfolio looks like again by fair market value roughly 83 percent in North America, 10 percent in Europe, 7 percent in the rest of the world. So it's a modestly-balanced portfolio; it's a modestly diversified portfolio. We continue to think about new commitments and way to augment the diversification.

And the last piece I would touch on is

where does the portfolio stand, how do we benchmark. Because that's always an important thing, how you are doing versus your peers. If you look at it from the benchmark that we use, which is the Russell plus 500 basis points for illiquidity, we are modestly lagging that benchmark. That benchmark as of the first quarter was 7.59 percent. We are at 6.83 percent. If we look at it from a venture economic standpoint or really a pooled-vehicle benchmark, which includes all private equity, we are exceeding that benchmark. That benchmark is 3.75 percent.

But, again, I think as we look at the portfolio, again because it's not a seasoned portfolio, it's a relatively immature, we should see over time the IRR and multiple continue to move forward.

And that's where we are today.

MR. AARONSON: Barry, I have a question. When we make a commitment, we keep the money or the general partner gets the money that we commit?

MR. MILLER: So the way it works, so we go to a general partner. We say, We are going to give you X amount of dollars. We don't give them any money until they start making investments, so the money stays in our pocket. We do with the money whatever we see fit and then when they make investments or call fees and expenses, they send us a drawdown notice and we pay them over time.

Generally speaking, the model is it takes five years to invest that money and then it takes another five years to get our money back, plus a return.

MR. AARONSON: And their fees, when do their fees start? When we commit the money or when they call it down and start to --

MR. MILLER: What I would say is this: It's a great question and I am going to give not the simplest of answers, which is the fees that we pay are based on the commitments, not the amount of money we pay them. So that's the first part.

MR. AARONSON: Let me just understand. That means that we are holding the money and they are charging us 2 percent or whatever?

MR. MILLER: Whatever the appropriate fee is, that's what we are being charged.

MR. AARONSON: And we are dumb enough to make that?

MR. MILLER: Well, what I would say is that the good news is that the opportunity for them is they are looking for deals and the good news is we want them to find the best deals. So we are paying them a fee not necessarily for money in the ground but for them to look, and look around whether it's global, whether it's U.S., depending on what type it is.

MS. MARCH: They are smarter than we are.

MR. MILLER: No.

MS. MARCH: They are smarter than we are.

MR. AARONSON: I just want to make sure I understand. I guess everybody does the same thing similar or, you know, other pension funds and private?

MR. MILLER: The private equity is commitment structure.

MR. AARONSON: So they all give these people money and these people have done nothing; they have not invested a penny of it and we are paying them just the same.

MR. MILLER: What I would say is --

MR. AARONSON: And because they can call the money any time they want, we have to keep the money in cash earning, you know, a 10th of 1 percent and they are charging us 2 percent and we are getting -- and, you know, I think that the people who are doing investing for all of the public systems have to get together and tell these people that's no way that we are going to do business in the future. We got to do something to protect the soundness of our funds. And by paying them all this money for nothing, when they are not investing a penny of the money, we are just giving away money.

And I am sure everybody has been reading and hearing about what's going on all over the country about the funding of retirement systems. It looks like -- it's just something that came to my head.

MR. SCHLOSS: Any more private equity questions?

MR. AARONSON: Anybody else have any questions?

MS. MARCH: No, you asked them all.

MS. ROMAIN: Maybe we could do this in executive session, but the exit activity part of the notes say the prospect of higher taxes seem to have generated a lot of secondary PE to PE sales. Can you comment on that or would you --

MR. MILLER: I can answer.

MR. SCHLOSS: Let's wait.

MR. AARONSON: I just want to finish my circle.

MS. MARCH: Wait, write it down.

MR. AARONSON: This is different than what we do at real estate, right? In real estate we have the money invested and they get the money when they are ready to invest; am I right?

MR. SCHLOSS: No, they are exactly the same.

MR. MILLER: It's the same structure.

MR. SCHLOSS: However, you will be happy to know we are going to bring you a real estate investment that we only pay when the money is invested. We pay zero commitment fee. A structure you will admire, so we are working on it.

MR. AARONSON: But right now real estate and private equity are exactly the same?

MR. SCHLOSS: Exactly the same.

MR. AARONSON: We are paying fees on monies that's not invested?

MR. MILLER: Fees on commitment, not on money.

MR. AARONSON: Well, that concludes that session, the public session.

Can we go into the executive session now.

No, I think we need the public session on the variable funds first, then we will go into the private session.

MR. LYON: Good morning. So let me just also reintroduce David Morton, one of our other partners from our research team. And David will be speaking about one of the later agenda items, but just wanted to reintroduce him.

So I will try to go pretty quickly. Luckily Martin covered a lot of market commentary, so I will try not to repeat that when I talk about the variable fund performance and positioning.

I would like to start with the green quarterly reports. Going to hit a couple of highlights, but certainly can take questions now or as followup.

If you flip behind tab 2, we have some comments on page number 3 relating to the Diversified Equity Fund or Variable A for shorthand, as it's formerly known. And this is information through yearend, so through the fourth quarter of last year the fund was up 9.9 percent. That was modestly ahead of the hybrid benchmark, but it was a couple -- almost 15 percent behind Russell 3000 Index. So in one quarter for the U.S. equity markets to be up 11-1/2 percent in periods like that given the structure of variable A, we would expect on average to trail a little bit. That's what we found. So the defensive composite and, in this particular quarter, the international equity composite did trail the overall funds return.

That said, those two composites for the quarter were each ahead of their respective benchmarks. So it's not that they weren't executing well on their strategies, but their characteristics and in the case in the defensive composite, the lower market exposure that they have were such that they dampened the returns a bit versus the U.S. equity return market. So I would say this result is in line with expectations for a particularly robust period.

So, in any case, if you flip ahead to page number 4, you can see on page 4 is the five-year risk and return characteristics. And again, as has been pretty consistently the case in the past, the total fund which is the blue square has exhibited somewhat less total return volatility, somewhat less risk over this five-year period which is consistent with its design. That said, it has underperformed a little bit versus the benchmarks and part of that versus the five-year U.S. equity market is due to in this particular five-year period, international wasn't quite as strong a performer and a large portion of this is also due to certain managers that are no longer part of the program. So there are other factors as well, but those strike us as two of the primary factors. And, again, with the scale here, the returns aren't terribly different. So it's close, but it did underperform. But the risk profile is what is consistent with the objectives of this fund.

And then if you flip ahead to pages 6 and 7, you can see on page 6 a similar chart, different scale showing the risk and return of all major composites. And on 7, something we like to look at over time is how our tactical managers within the defensive composite position themselves. You can see that they had 80 percent and 62 percent equities at yearend respectively. And then there is some additional detail which we have previously reviewed on the yearend flash in the last meeting, so I am going to keep moving to the next fund unless there are questions.

Behind tab 3, page 16, we have a profile of variable B which we have discussed in other ways many times over the past year, but here you can see the asset allocation approximately $419 million at yearend and you can see how this was split between the funds to managers.

If you flip ahead to the next tab behind page 18, we have comments on the remaining other three variable funds, C, D and E or the International, Inflation Protection and Socially Responsive Equity funds respectively. And what you can see is for the quarter, each of the funds modestly to more meaningfully outperformed their benchmarks. And all this information of course in this book is net of fees. And since the inception of each of these three funds, they are all meaningfully ahead of their benchmarks.

So just to tick it off, the International Fund has an positive 2-1/2 percent return since inception versus negative 3-1/2 roughly for the benchmark, so quite a large spread there. Inflation Protection Fund has a positive 6.8 percent annualized return since inception versus 3.3 for the benchmark, so again a big spread. And the Socially Responsive Equity Fund, 6.4 percent since inception annualized versus 1.61 with the benchmark. So these are all pretty successful performance results relative to benchmark since the inception of these funds in mid-2008.

There is some information profiling each of the funds on the following pages. So, for instance, starting on page 19 there is a profile of what the International Fund looks like. And just as a reminder, this fund is actually unified in the sense that the international equity fund co-invests alongside these managers alongside the international composite of variable A, so the manager allocations are substantially the same.

Then you can see, if you flip ahead, to page 22 what the Inflation Protection Fund looks like in its profile. And as a reminder, this fund invests substantially all its assets in a PIMCO mutual fund that, in turn, holds and actively allocates to a series of underlying other PIMCO mutual funds. And the recent holdings, there is a time lag on how these are released as of December 31st as shown on page 22.

And, lastly, the Socially Responsive Equity portfolio, which is different than the rest of the portfolios in that it's a much more concentrated active portfolio, is all invested substantially in a Neuberger Berman mutual fund strategy that is profiled starting on page 23.

And then in the back we have our normal information for your later reference, backward-looking economic and market review and our standard disclosures. So pause there and see if there are any questions.

MS. EMERY: Chris, that PIMCO fund is a mutual fund versus an institutional?

MR. LYON: It's an institutionally-priced mutual fund, yes. And it, in turn, invests in other PIMCO funds and part of that is given scale to this particular investment option. As of January 31st, had just under $18 million. And so compared to our roughly $10.2 billion variable A fund, for instance --

MS. EMERY: Nobody is afraid of inflation?

MS. MARCH: No, it's a new fund. And until the individuals who are investing their own money learn about it, it will take time. It's a new fund and it could take five, six, eight years until people focus.

MS. EMERY: But it's really a great

addition.

MR. LYON: Together the three new funds have attracted now well over a $100 million.

MR. AARONSON: This is in a 2-1/2-year period. These funds are 2-1/2 years old.

MS. MARCH: It's just --

MR. LYON: But a $100 million is a reasonable amount of movement, certainly a starting point.

Any other questions on the quarterly report? If not, I am going to go to the monthly items real quick.

So the first thing is distributed in advance, I will go through it really fast. The January 31st variable A flash report and the first page you can see the asset allocation 10.1 billion at the end of January. And something I would just like to point out is that you will see we still have some of the legacy labels, but in the active equity composite for core, previously agreed to collapse the risk controlled and eclectic. So this is the last time you will see any reference to those. And collapsed most of the information, but we will finish collapsing it on next month's report. And the same is true on the international composite as well.

The following pages, 2 and 3, you can see the performance information. Square in the middle of page 3 is what's the line item called "Teacher's Total." That's the total variable A return for the month of January. This was 2.12 percent. That was within a handful of basis points of both the benchmarks, right between the two benchmarks. And for the one-year period ending January 31st, we are up 21-1/2 percent. That lags the benchmark for one more than the other, but for similar reasons that I described earlier. But, particularly, the international and defensive composite did not keep up with the U.S. equity markets during that time frame, so these are the major observations for variable A.

Any questions?

MR. AARONSON: Yes, I have a question. Is it possible for you to break out for me the investment managers in the variable program that are similar to our emerging managers in the pension fund, and about how much of our

DDA funds are invested in emerging managers? I would like that information if we can have it by the end of the week because next Tuesday we would like to use that information at a meeting.

MR. LYON: Yes, we can do that by the end of this week. We will have it for you.

On variable C, D and E we also have the report that's distributed ahead of time. You can see for the month in this case, three funds each slightly lagged their respective benchmarks. But their results for the one-year period, the international fund is pretty close to its benchmark and the other two funds were meaningfully ahead of their benchmark for the one year through January 31st.

Lastly, we had the February benchmark report, which includes an estimate of the hybrid benchmark for variable A. February was a strong month, generally speaking, across the board, particularly for equities. Not much difference between U.S. and international benchmark. And you can see that the hybrid benchmark is estimated 3.47, 3.47 percent for the month of February. It didn't feel like I was saying earlier plus 3 percent kind of month. Last week and a half or so was a rougher ride, but nonetheless it did finish out pretty strong results thanks to the first half of the month, basically. You can see also how the PIMCO All Asset Fund that's used in variable D and the Neuberger fund used in variable B performed well during that month.

Any questions?

So that concludes I think the public session for the variable funds.

MR. AARONSON: Thank you very much.

We need a motion to go into executive session. Do I hear such a motion?

MS. MARCH: So moved.

MR. SCHLOSS: Second.

MR. AARONSON: Anybody opposed to going -- okay, nobody opposed.

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

MR. AARONSON: Okay, voted to go out of executive session. We are now back in public session.

MS. NAGASWAMI: Mel, I received an e-mail yesterday, which I think several people already have, acknowledging three of our trustees for their lifelong contribution to this fund and the pension community at large. And I simply want to acknowledge Mel, Sandy and Mona for being those three trustees that are being honored by NASP next week and it's just an absolute delight to have a chance to work with you guys. I just think it's a terrific honor for the system and a real recognition of your work, so thank you.

(Applause.)

MR. AARONSON: Maybe we will have the good luck that some of you will be attending the program. The funds that are raised in this program go to educate minority children so that they can participate in the financial industry and they do a great job. And we are glad -- Mona, Sandy and I, are glad we are able to help them. They are just a great team.

MS. MARCH: Thank you for your kind words.

MR. AARONSON: And in public session now we have to summarize what we did in the executive session. Susan?

MS. STANG: Okay, in the executive session of the variable funds there was a discussion about the change in the investment profile of one of the passport funds. Consensus was reached, which will be announced at the appropriate time.

In the executive session of the pension fund, an economic review as well as detailed performance reports on each asset class were presented. An update on an investment manager was presented. A consensus was reached, which will be announced at the appropriate time. An update on one investment manager was also presented. There was a presentation on a specific asset class. There was also a presentation and discussion on the procurement process. A consensus was developed, which will be announced at the appropriate time. There was a presentation about the private equity portfolio and market and a discussion followed. There was also a presentation about asset allocation, which was received and discussed.

MR. AARONSON: So anybody have anything to add to that?

Okay, do I hear a motion to adjourn.

MS. MARCH: So moved.

MS. ROMAIN: Second.

MR. AARONSON: Anybody opposed?

We are adjourned.

[Time noted: 3:15 p.m.]

C E R T I F I C A T E

STATE OF NEW YORK)
: ss.
COUNTY OF QUEENS)

I, YAFFA KAPLAN, a Notary Public within and for the State of New York, do hereby certify that the foregoing record of proceedings is a full and correct transcript of the stenographic notes taken by me therein.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of ____________, 2011.

____

YAFFA KAPLAN