NEW YORK CITY TEACHERS' RETIREMENT SYSTEM
INVESTMENT MEETING
held on Thursday, March 4, 2010
at
55 Water Street
New York, New York

ATTENDEES:

MELVYN AARONSON, Chairperson, Trustee
SANDRA MARCH, Trustee
MONA ROMAIN, Trustee
DIANE BRATCHER, Finance, Trustee
LIZ CALDAS, Comptroller's Office
ALISON CRUZ, Finance, Trustee
JOHN DORSA, Comptroller's Office
MARTIN GANTZ, Comptroller's Office
MARK GROSS, Comptroller's Office
THADDEUS McTIGUE, Comptroller's Office
KALI NDOYE, Comptroller's Office
YVONNE NELSON, Comptroller's Office
MORAIMA PARES, Comptroller's Office
LARRY SCHLOSS, Comptroller's Office
NELSON SERRANO, Comptroller's Office
JOEL GILLER, Teachers Retirement System
MARC KATZ, Teachers Retirement System
SUSAN STANG, Teachers Retirement System
PAUL J. RAUCCI, Teachers Retirement System
ROBERT C. NORTH, JR., Actuary
KAREN SEEMEN, Corporation Counsel
CAROLYN WOLPERT, Corporation Counsel
CHRIS LYON, Rocaton
ROBIN PELISH, Rocaton
ROBERTA UFFORD, Groom Law Group
BUD LARSON, Office of Management and Budget
STEVE BURNS, Townsend
SARAH CACHAT, Townsend
MICHELLE DAVIDSON, PCG
MICHAEL TAYLOR, PCG

P R O C E E D I N G S

(9:55 a.m.)

MR. SERRANO: We're going to begin the March 4, 2010 investment meeting of the Teachers' Retirement System by calling the roll.

Melvyn Aaronson.

ACTING CHAIRPERSON AARONSON: Here.

MR. SERRANO: Kathleen Grimme.

(No response.)

She is not present.

Tino Hernandez.

(No response.)

Also not present.

Bud Larson.

MR. LARSON: Here.

MR. SERRANO: Thad McTigue, representing the Comptroller's Office.

MR. McTIGUE: Here.

MR. SERRANO: Sandra March?

MS. MARCH: Right here.

MR. SERRANO: Mona Romain?

MS. ROMAIN: Here.

MR. SERRANO: We do have a quorum. And we need to elect an acting chairperson.

MR. LARSON: I nominate Mel.

MR. SERRANO: Any second?

MR. McTIGUE: Second.

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

(A chorus of "Ayes.")

Opposed?

ACTING CHAIRPERSON AARONSON: We are now in session.

MR. SERRANO: Nobody opposed, no abstentions.

ACTING CHAIRPERSON AARONSON: So, today, I think the order of business is we're going to do the public agenda on both the variable funds and the pension funds. After the public agenda, we are going to go into client-lawyer privileged session. And when we come out of the client-lawyer privileged session, we are then going to go into the private agenda of the executive agenda. First, the pension fund, and then the variable funds. And then, at the end of that, we are going to hear a report from the Bank of New York on how they are going to service our members.

Is that okay with everybody?

So, public agenda, we will start with the report on the pension funds.

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MR. SCHLOSS: Martin?

MR. GANTZ: Everyone.

ACTING CHAIRPERSON AARONSON: Either use a stentorian voice or come up a little closer. I know you have that stentorian voice.

MR. GANTZ: It's a baritone voice, actually. If my projection doesn't work, just let me know.

ACTING CHAIRPERSON AARONSON: Yeah, that didn't work.

(Laughter.)

Thank you. It is nice to be kind to old people. Someday you'll be here.

MR. GANTZ: Everyone should have a copy of the flash report in front of them. We have extras, if you don't. The flash report shows returns through the close of business of March 2, 2010.

If you draw your attention to the column of numbers on the left, which start with the fiscal year-to-date numbers, they show that the U.S. Equity returns we estimate were 24.63 percent, matching the Russell 3000 benchmark, which is not surprising since most of the assets are passively managed.

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For the non-U.S. Equity managers, the return we estimate would be 17.69 percent; 18 basis points ahead of the EAFE index.

REIF managers returned 45.92 percent, which is 341 basis points behind the benchmark. Also, I want to point out the number directly to the right of that, and that's quite a rebound from the decline in the markets, and we've heard from a manager last month about the REIF market.

Opportunistic equity returns are 18.15 percent; 273 basis points behind the MSCI world index.

Private equity and real estate, last month we started showing actual returns. But, of course, these returns are on a lag basis. So, these are the same returns you saw last month, which was the returns for the period ending September 30th.

In the case of Private Equity, the return was 25 percent; 176 basis points ahead of their benchmark. And for Private Real Estate, the return was a negative, negative 8.3, or behind the benchmark by 525 basis points.

We estimate the Total Equity Return at 22.03 percent, and that's 245 basis points behind

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the Total Equity Policy Benchmark.

The U.S. Fixed Income, we'll start with the Core+5 investment grade sector program, and that's 155 basis points ahead of the benchmark index, and that is 7.91 percent versus 6.36 percent.

TIPS managers were behind by 1 basis point, returning 5.41 percent. High-yield managers were at 16.99 percent; 39 basis points ahead of the Citigroup BB/B index. And convertible bond managers were at 21.29 percent behind the benchmark of 25.25.

You'll see opportunistic fixed income has an "n/a." Next month, that "n/a" will come out and you will see numbers just like what's shown in the private equity and real estate.

Total Fixed Income returns are 9.62 percent; 79 basis points ahead of the benchmark. And when you take all these numbers together, we estimate that the total Teachers return, fiscal year-to-date, comes to 17.68 percent.

And when you back out 14 basis points of public market fees, it's a net-of-fee return of 17.54 percent behind the adjustment policy

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benchmark of 19.43 percent. And those are the numbers through March 2nd.

Are there any questions?

ACTING CHAIRPERSON AARONSON: Thank you.

MR. GANTZ: So, starting with the quarterly, I have a handout here. There was a page, page 10, that had a typo in there.

(Indicating.)

So, if you would pass those around, we will get to this page.

But to start with, I want to point out that fourth quarter of 2009 was a good quarter for overall market returns. The economy grew greater than a 5 percent clip and interest rates remained low and accommodated.

The broad market, as represented by the Russell 3000, returned 5.9 percent for the quarter, and 28 percent for the year. And as far as style goes, growth generally beat value as risk takers returned to the market.

For non-U.S. Equity, the EAFE index returned 2.18 percent for the quarter and 31 percent for the year. The dollars declined during 2009 versus major occurrences contributed to the performance, although -- in reading that, that

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trend has reversed in the past few weeks as the euro had declined versus the dollar. But for the period that we're talking about now, it was helping the returns.

And while fixed income returns are not nearly as high, low short-term rates and narrowing credit spreads helped returns. The Core+5 index was essentially flat for the quarter and was up 6.28 percent for the year. TIPS were up 11 percent for the year. But the real action in fixed income was in high yield, where lower-quality issues led the rally and spread Titans considerably from the extreme levels over a year ago.

A high yield is measured by the primary benchmark as Citigroup BB/B index returned 4.7 percent for the quarter and 40 percent for the year, while the Merrill High Yield Master II index returned 57.5 percent for the year. That's the benchmark that we measured high against, and that includes CCCs. And CCC has doubled during 2009, and they are the most speculative issues in the benchmark.

So, starting with the returns, the total portfolio returns, that would be on page 9, which shows that the total return for the Teachers'

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Retirement System was 3.86 percent versus 4.06 for the policy benchmark that's 20 basis points behind. The fund, by the way, as of December 31st was at $35.3 billion.

The fiscal year and one-year returns for -- on an absolute basis, very strong but lagged behind the policy benchmark. This is primarily due to two reasons: Number one, there was an overweight to fixed income, and overweight to fixed income in a very strong equity market detracted from performance. And also, private equity and real estate returns were negative, and that detracted from performance.

However, it will go through the attributions later. You'll see that what hurt in 2009 actually helped in 2008. And so, the net effect over the three years is okay.

The longer-term returns on page 9 were ahead of the policy benchmark. And again, we'll soon see the attribution.

So, I just distributed page 10, or revised page 10. The reason I revised page 10 is because the lower part of the chart had some incorrect rebalancing ranges. In your handouts, you'll have the correct numbers. But the top part

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of the page shows the pie chart of where assets are actually invested. And the bottom of the chart, of course, is the overweight and underweight versus policy as of December 31st. As of that period, all asset classes were within the rebalancing ranges and the overall fund was at 68.3 percent total equity.

The next several pages --

MR. SCHLOSS: One second.

Hopefully by next month we're going to give you, as part of the monthly package, charts that look like that track where the value was created month by month amongst the asset classes. And then we'll walk you from that directly into which managers help and which managers didn't help. So, we'll walk through that every month.

So, something like this should be completely old news by the time you get a quarterly report. But we'll get off to something that's simple as a one-pager and get into some real meaty stuff early in the meeting as we talk about managers and performance.

So, then they'll go directly to the watch list, which would be pretty obvious, if you watch these guys not make it every month, then they

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go to the watch list and then get rid of them.

Anyway, sorry.

MR. GANTZ: That's okay.

So, the next several pages, starting on page 11, show the attribution of returns. And page 11 shows the quarter ending December 31st, and you will see that both the allocation effect -- the allocation effect is the effect of being over- or underweight versus policy and the management effect. And that's how the actual managers did versus their individual benchmarks, but both of those effects were slight negatives for a total negative of minus 20 basis points. But the overall return is 3.86 percent.

The one-year attribution in the next page shows negative allocation effect, and that's mostly from the fixed income overweight during much of the year when equity returns were quite strong.

The negative management effect is mostly from private equity and real estate, because private equity is measured on a lag basis. So, during the year, the Russell 3000 benchmark had a very strong set of results, but the private equity managers, of course, were in the midst writing things down.

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But if you turn to the next page on the three-year number, you will see that the negative 2009 numbers are still down and reversed in the three-year returns. The same fixed income overweight that hurt in 2009 helped in 2008, and private equity and real estate were also ahead in 2008. And in case you're wondering, as I mentioned before, we're very close to the policy weight, total equity and fixed income.

Page 14 shows the management effect broken down by asset class. And clearly, the largest numbers on the page were private equity and real estate, and this is because the managers -- the funds were writing things down during that time period. At the same time, that, in the case of private equity, the benchmark was going up; in the case of real estate, the real estate benchmark was not going down as much. And Yvonne will be talking about that a little bit later.

Page 15 shows how Teachers ranks versus other large public funds. And the number on the left -- numbers on the left show that Teachers was in the top quartile for the December quarter and in 22nd percentile for the year, and that's towards the middle of the page. TRS was in the

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25th percentile just inside the top quartile.

The following page shows results for the annualized periods ending December 31st. So, you'll see that the -- during most of those time periods, the Teachers' results were near the median. Generally speaking, the results are strongly driven by the effects of U.S. Equity. And over time, we are diversifying away into other asset classes.

So, the equity analysis starts on page 18, and the pie chart shows the total equity allocation. And, of course, the largest slice of that pie is in red, and it's the U.S. Equity allocation at 63.9 percent. That represented $24.1 billion or, like I said, total equity is at 68 percent of the fund.

So, if you want to see how the individual sectors did, turn to the next page on page 19. And the pie chart, again, is dominated by the passive results. The other color or the smaller slices are the active managers. And the only active managers that we have here in this program would be from the emerging manager or managers and the developing managers. But you'll see, the good news is in the difference column; all

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of the sectors outperformed during the quarter.

Page 20 shows small cap returns, this is $126 million, and this represents the developing managers. The small cap and large cap allocations represent the developing managers. Small cap returns were very strong on an absolute and relative basis, returning more than 25 percent for the fiscal year-to-date, and they were ahead of the benchmark as well, the benchmark being the Russell 2000.

Large cap results are somewhat similar, except for the fiscal year-to-date, they were 2 basis points behind the benchmark. But on an absolute basis, the returns were quite strong. And on quarterly basis, they were strong and beat the benchmark as well.

MR. KATZ: Martin, these are gross of fees?

MR. GANTZ: These are gross of fees.

Page 22 shows the emerging managers, which are the manager of managers, and that's -- we show the quarter and the year, and those numbers have been good. The quarter 5.96 percent and the year was 29.70 percent; that is 136 basis points ahead of the benchmark. The two-year number,

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however, was behind the benchmark.

The single largest area of your portfolio belongs to the passive managers in the Russell 3000 space, and that's shown on page 23. This represents 41 percent of the total fund, or $14.6 billion. And as expected, the managers track the benchmark very closely. The results are strong for the quarter and the year. You'll see that the results are right on top of the benchmark for all of the periods shown.

Page 24 shows the total domestic equity. And, of course, since the passive results are over 90 percent of total equity, those dominate these returns. So, this slide looks very much like the other slide where the returns are on top of the benchmark.

And then we have the opportunistic equity slide, which is on page 25, and this represents the environmental sustainable and activist strategies. And the managers trail the MSCI World benchmark for the quarter and for the 12-month period. But on an absolute basis, the managers return 28.72 percent for the year.

So the non-U.S. Equity discussion starts on page 26, and all of your managers are

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actively -- or all of your managers employ active strategy. And you'll see on this pie chart on the bottom that the EAFE-developed market managers are diversified among value, growth and core styles.

The returns are on page 27, and you will see that, for the quarter, the managers were behind by 17 basis points for the quarter, but then were ahead for the year by 82 basis points, returning 32.60 percent. And they were also ahead for all of the longer time periods, as well. The negative 2008 results obviously impact the long-term results that you see there.

And the last page on the equity analysis would be page 28. This is the REIT managers. The REIT managers saw very strong absolute returns and they beat the benchmark, 9.24 percent versus 9.01 for the quarter. But for the fiscal year to date, they were behind. The 12-month period and all the other longer term periods, the managers were ahead in the program have added a value of longer time periods, and for the year, they were ahead by 185 basis points returning 30.86 percent.

Since the inception, they have returned 10.44 percent versus 8.98 percent for the benchmarks. So, as we discussed last month, this

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is a program that's done quite nicely. Fixed income starts on page 30 and we start with the pie chart of weighing your fixed income assets are allocated on a actual basis and the largest slice of the pie belongs to core plus 5 investment grade structured program at 55 percent of the pie. High yield was at 19 percent and the fixed income assets were $11.2 trillion or about 32 percent of the fund.

Getting to a little bit more detail on the Core+5 program on page 31 and the December quarter was the first full quarter of performance for the new Core+5 managers. You will recall the combined sectors into one sector, that's why we have three slices instead of four, and that's our renamed credit sector. And the largest sector continues to be the mortgage sector at 49 percent.

The table on the bottom of the page shows that we were underweight. Treasuries in overweight mortgages and credit just turns out to be something that's added to performance because treasuries were just about the only public market asset class in the quarter that declined as investors look for more risky assets and risk returns to the market. The really good news here

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is that if you look under the Difference column, each of the three sectors beat the benchmark for the quarter. So, it was a good quarter and a good year for Core+5.

Page 32 shows the returns versus the benchmark, and the benchmark was flat primarily because treasuries were negative versus the positive returns in the credit sectors. There was an added 59 basis points for the quarter and added 226 basis points for the 12 months returning 8.54 percent. That, of course, reverses out the negative returns that we saw in 2008. And so, for the three- and five-year numbers, you still see negative returns, but 10- and 15-year numbers are back to benchmark levels.

On page 33, we see TIPS returns, and managers were ahead of the benchmark by 8 basis points returning 1.84 percent. You'll see they were behind for the year while it has strong absolute return at 10.14 percent. There was a pricing anomaly on December 31st, 2008. And to show that, you will see the three- and four-year numbers. Managers were ahead by about 20 basis points. When we get to December 31st, that pricing anomaly disappears. It reverses out and the

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managers are comfortably ahead for the periods.

Page 34 shows the Enhanced Yield returns. And as I mentioned in my opening comments, this is where the really strong returns were. And the managers beat the primary benchmark for the quarter 4.78 percent versus 4.68 percent. And for the year, it returned 38.75 percent trailing the benchmark 162 basis points, but the results were very strong on the absolute basis.

And on the longer term results, you will see in three years, the managers beat by 325 basis points and they were ahead for the other periods as well. Effectively, what happened here is Triple Cs led the rally, the lowest quality. Now, Triple Cs are not in the benchmark, but managers are allowed to own them. And one manager, McKay Shields, has Triple Cs in their benchmark. So, they underperformed on that basis.

Managers are generally defensive through most of the period, and as returns normalized, you will not going to see 40 percent returns every year in high heels. This is a simple snap back from the extreme levels that we saw before. We expect that the differentials would be more mute.

ACTING CHAIRPERSON AARONSON: Could you

refresh my recollection on the difference between the BBD index and the BBD capped index?

MR. GANTZ: Sure. About three years ago, we added a secondary benchmark, the Citigroup, double B, single B capped index. The difference is that the uncapped index or the standard benchmark keeps securities in there at whatever weight they are.

And in 2005, if you recall, Ford and General Motors was downgraded into high yield land. Ford and General Motors, at the time, comprise 16 percent of the benchmark. The managers, basic risk control, would indicate that they would never own 15 percent of these issues. And quite frankly, they owned barely anything of those issues at the time. Because -- well, the universe -- we want to represent what the entire universe is, which is double B, single D index.

We also wanted to show you what the reality is at how the managers invest. And there is a benchmark for Citigroup double B capped index that cap is at issue at 2 percent. Our managers are generally not going to own more than 2 percent of risk purposes. And so, if a particular issue goes up to 7, 8, 9, 10 percent, that will show up

in the standard benchmark, but managers will not own that.

So, in an event such as in 2005, when autos returned 24 percent of the year and 15 percent of the benchmark, our managers significantly underperformed. So, we introduce this benchmark that show that while they underperform because of that reason versus the capped benchmark, they actually outperformed. That underperformance reversed out as autos got hurt in the following years.

So, over time, the benchmark should converge in any one particular year. When you have a particularly volatile year, you may find big differences. And so, we show the capped index as a reflection of what the managers really do. And that's why we added it.

MR. SCHLOSS: That aside, we're going to do a complete review of all the benchmarks. One of the other pension funds asked about them. And so, we'll do a complete review in rationalizations in where they are. It might have been corrected in sort of old benchmarks and the answer might be -- well, that worked five years ago, but it's not right anymore.

So, we'll come back to the complete top to bottom based on what you have and all the right benchmarks. If not right, we'll come back if they look at that one if there should be changes. It's overly sophisticated, but gets a wrong answer.

ACTING CHAIRPERSON AARONSON: We're not going to change benchmarks because of the fact that our funds --

(Laughter.)

MR. SCHLOSS: Benchmarks are supposed to help you, but it can be useful.

MR. GANTZ: So, convertible bond returns, as shown on page 35 -- and the convertible bond management has a strong absolute return, but they did trail the benchmark for the quarter. They returned 5.23 percent. That was 35 basis points behind their primary benchmark. And for the year, they returned 34.16 percent, and that was significantly behind the primary benchmark of 47 percent.

The reason generally here is the managers are defensive. Unlike our high yield benchmark, this benchmark contains Triple Cs in the benchmark. And so, Triple Cs, as I described to in the high yield universe, doubled their price. In

convertible bond land, they more than doubled their price, because in convertible bonds, not only can you can get the spread, but you can actually get price increases because the underlying stock price increase. The managers have been somewhat more defensive and we would -- this is not surprising and we would expect this to happen.

If you recall, in 2008, when the returns were significantly negative, the managers outperformed significantly the benchmark. We will see that in the watch list going forward, but in public session here, I just want to note that the managers were more defensive and we would expect that they would be going forward. And finally, on page 36, we show the target returns which were ahead for each of the period shown and -- is Kathy Martino here?

THE SPEAKER: No.

MR. GANTZ: Kali is here, and she's going to take you through more detailed analysis of the target.

MS. NDOYE: Kathy is not feeling well today, that's Kathy Martino. So, we are rather pleased about the performance of the target investments -- target investment whether the

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economic price as well because we had no trouble such as subprime loans. Most of your investments are largest and will take you in your biggest investments. It's in the HIT hit and CPC. Also what contributed to the performance is that CPC average coupon is 6.27, where today's coupon average 5.5 and under. If you can turn to page 7 in your package. We are looking at TPAR.

MR. SCHLOSS: I want a different package.

(Discussion off the record.)

MR. SCHLOSS: Page 7. And looking at TPAR of this quarter, it shows 9.5 million rate locked in Bronx, Manhattan in Brooklyn. Also the purchase for this quarter totalled $5.7 million primarily in Brooklyn, Manhattan, Bronx and Queens. And if you look at the historical performance below the graph on the left, the historical investments of -- mostly in Manhattan were actually all the boroughs.

But in Brooklyn, you had 30 some-million, 30.6 million; Manhattan, 22.0; Bronx, 22.9; and Queens, 19.9. And the graph on the right shows you're committed for the five boroughs. Brooklyn has the most activity and CPC

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is the most active in this space.

The next page is the AFL-CIO HIT. The AFL-CIO HIT is continuing the investment in New York City. This quarter, we saw 80 million investment in New York, $16 million in multifamily and the remaining in single family. And in Phase 2 of the New York City community investment initiative, 862 loans have been made to TRS members, and that's showed on the chart on the right, mostly in Brooklyn and Queens.

ACTING CHAIRPERSON AARONSON: Kali, how do the members find out about the availability of these loans?

MS. NDOYE: It's outreach from the HIT, outreach for the unions that have an outreach program.

The next page -- this is a new initiative since third quarter of 2009. This the Workforce Housing Initiative. And this actually was initiated third quarter of 2008, and since we have $22 million invested in the preservation of multifamily, Mitchell-Lama houses, primary Mitchell-Lama projects, there's no change in the space since the last quarter. But we do have a $22 million investment.

The next chart is the CPT revolver and Teachers is one of about 70 participants in this space. And the revolver continues to be active in construction lending and funding in affordable housing and in a retail and low and moderate areas. And currently, most of the revolver activity is in Brooklyn. It's in the chart on the bottom.

The next chart is access capital. And technically, this has been actively managed portfolio by buy-and-hold strategy and does not allow change since the last quarter reporting. But this manager was just awarded $100 million allocation across the systems. And so, you will see no activity to report on the next quarter.

The last page of performance breakdown by manager and, as Martin mentioned, we outperformed our benchmark every sector in one year, sector by 252 basis points, 52 basis points and the five-year by 61 continued by 34. Again, we are quite proud of the work that happens in the retail space.

MS. ROMAIN: I think this is where we should put all our money in real estate. I really truly believe that.

MS. NDOYE: Any questions?

MR. SCHLOSS: If that's been the introduction, we should go to real estate.

(Laughter.)

MS. MARCH: By the way, thank you and welcome to the Teachers' Retirement System.

MS. NDOYE: Thank you very much.

MS. NELSON: Real estate is long term.

(Laughter.)

Start on page 16 of the board book. And as Martin mentioned that they were talking about the benchmarks and the performances, I'm going to start by focusing on the quarterly performance and take us directly into the conversation about that benchmark.

So, for the third quarter of 2009, the NPI, the benchmark, as Martin indicated, delivered a return of negative 3.3 while the Teachers' Retirement System delivered a return of negative 7.9 on gross basis. And then after fees from the manager, the quarterly result was negative 8.3.

So, the NPI has been in use in the real estate industry for private real estate since late '80s. It is the best index that's available. There are other options, as Larry mentioned. There's going to be a wholesale review of that, but

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just to focus on real estate.

The NPI index is an index that comprises 100 percent of core properties -- that strategy, low-risk strategy, where the properties are substantially leased. Most institutional investors in real estate have a combination of real estate investments in their portfolio that reflect different strategies. And so, some decide to use the NPI knowing that their portfolio is a mixture of core, non-core and other things while others have developed in private.

I would say the key reason for the disparity in the benchmark today is debt. This index -- if it's an unleveraged index, there's no debt on it. The Teacher's portfolio as of this moment is about 61 percent leverage, and that does have some influence on the performance that we are seeing disparity that we are seeing.

The other thing is, I mentioned about the index is comprised of core properties, 100 percent, and our portfolio right now is predominantly non-core. The other thing that I would point out is that the index is comprised of about maybe 6,000 properties reported, and they're owned by institutions that own the properties

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directly.

And they also have their own policies as to when they are going to appraise. And these properties are typically appraised on a one to three-year cycle which is much slower than our portfolio which is exclusively held. But fund managers who are appraising properties particularly on the core side sometimes as much as every quarter in response to what's going on today in terms of the credit crisis.

I just wanted to be able to explain all of those factors to you so when you look at the benchmark, you can be mindful of what characteristics our portfolio has and kind of do your own plus and minus exercise.

So, I'm going to move on to other aspects of the highlights about the portfolio. The market value of the portfolio at the third quarter of 2009 was $364 million. We have about $367 million in commitments that are not yet funded. And altogether, that comes to $731 million.

We're about halfway through our real estate allocation. And in terms of total plan assets, we are 1.1 percent funded and 2.2 percent

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committed, as the trustees have approved the 5 percent allocation to real estate. In terms of what's going on in the markets, Townsend provided a commentary in the second paragraph. And they will be here in executive session because of what it was and the appropriate time to revisit the asset class, the markets and your portfolio in particular.

There are some signals, macroeconomic signals, that a recovery is underway. But historically, real estate has lagged as much as 24 months behind that. And in this particular instance, it's going to be kind of difficult to estimate that because in real estate, it is not good unemployment numbers.

You need a healthy consumer. You need jobs, quite frankly, for the office space, for our household formation, for apartments, for discretionary income for people that had spent at retail properties and for export and imports. So, real estate is highly dependent on the health of the consumer. And we are waiting for those things to converge.

So, the graph at the bottom shows you the fact that we've had some near-term

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underperformance in the portfolio. But yet, for longer periods, the Teachers' portfolio continues to outperform.

On the next page, on page 17, there is, at the bottom, net and gross returns for the Teachers' portfolio. I just want to kind of circle around the five-year, which is the program benchmark, a rolling five-year of NPI plus 100. So, the benchmark of 6.2, you add a 100 basis points to that. So, the benchmark is 7.2. And as you will see on a gross basis and on a net basis, the Teachers' portfolio outperforms that program benchmark.

Moving on to page 18, we take a look at the portfolio composition which, as of third quarter of 2009, there was a potential program size of about $1.7 billion. As we kind of look into the next section that talks about trial sector allocation, pursuant to the annual plans and ideas that have been approved by the trustees, there's an allocation to core, a minimum of 40 percent, and an allocation to non-core, a minimum of 40 percent.

That 20 percent bandwidth kind of gives us some play to respond to what's happening into the markets and to bring you prudent investments

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that are consistent with the plan.

In terms of where we are on a funded and committed basis, we are 30 percent core and we're about 70 non-core, which would include the emerging in that. In terms of what we have available to invest dry powder, that's about $968 million between core and non-core. And there is some activity in the marketplace today for new opportunities -- they actually are strategies that can be exploited by investors throughout the cycle, even in times like these.

I saw a recent survey of plan sponsors, and plan sponsors do believe that they're going to be deploying money this year. And probably, we'll look into what areas where strategies are more kind of income-oriented, something that has more stability in the income, like core properties or debt.

Moving on to page 19, just want to focus a little bit on the primary compliance metrics that we put together in the IPS. In terms of the portfolio composition, we have talked about the fact that we're 30 percent core; that's just underweight to the policy of 40 percent. The history here, as you may recall, is that we have

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shied away from core for many, many years, given the fact that the pricing was just plain overheated.

Finally, I think things are -- there is an inflection point there, and we might see some core opportunities. As you know, there was a core investment that was made on behalf of the system's last quarter; we think that that's going to be likely to continue. People are proceeding ahead patiently and prudently and definitely focuses on downside risk protection.

In terms of the leverage, you will see that the leverage is at 61 percent; that is also above the policy benchmark of 50 percent. I would point out to you that we have not updated our IPS since 2005, and the shifts that we made in the portfolio composition have an impact on what this benchmark should really be. And you will see something coming soon with respect to updated IPS consistent with how we are managing the portfolio today.

Lastly, on page 20, there's diversification charts, property type and geography. And I would only point out here on the upper half of the page to the left, on property type diversification, we have asked Townsend to give us a little bit more clarity on what "other" is. And so, you will see now that there are categories such as land, condo and others, to kind of give us a little bit more color to what is in our portfolio. In Townsend, we will be here in executive session and we'll make that presentation to you regarding the markets and their portfolio.

Any questions?

MR. SCHLOSS: And this is just a quarterly private equity?

MS. CALDAS: Starting on page 24 of your booklet, in the quarterly would be for private equities at the third quarter of 2009. I'll start with performance.

As of third quarter, your IRR since inception is at a 4.4 percent, performing well against the benchmark, but relatively well with the Russell 3000 for 500 basis points, 4.7 percent, and the venture economics median, negative 0.8 percent.

Your portfolio is still really young, with the weighted average here of 3.12 years. Your policy, if you recall, that 4 percent are right now your allocation based on fair market value, is at its allocation percent target at 4.1 percent.

And you will see that further below on the page that your portfolio is allocated as such. It's still heavily weighted at corporate finance, about 70 percent there, 11 percent at venture capital and 19.4 percent in others. If you recall, "others" represents mezzanine, secondaries, fund-to-funds and other types of special situations.

If you turn to page 26, you will see more highlights. First, I want to point out that there were no new commitments for the third quarter of 2009. You'll also want to point out the appreciation. You'll see at your portfolio, it appreciated for the quarter at $75 million; that's a bigger appreciation from previous quarters, as you will see there. That's reflective of 51 funds that had write-downs of $9.8 million and 69 funds that had write-ups of $84.3 million.

You'll also see the IRR has come up slightly over the -- since the first couple of quarters of 2009 and last quarter of 2008, but it's still not at the pre, the earlier 2008, 2007 numbers. So, hopefully, as the economy gets better and your portfolio matures, the IRR is increasing.

If you look further below, you'll see

your portfolio summary. Again, you have $3.38 billion committed across 125 funds. Of that, 58 percent has been invested at $1.9 billion. You will see that your fair market value is $1.39 billion and the total exposure to private equity is $2.1 billion. Your total value multiple is 1.089 and, again, your IRR is 4.1 percent.

Any questions?

(Discussion off the record.)

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

ACTING CHAIRPERSON AARONSON: We're back in public session.

And during the executive session, the board discussed matters leading to the appointment or dismissal of particular vendors providing investment management in banking services.

During the attorney-client session, the board discussed matters relating to current litigation.

(Discussion off the record.)

MR. McTIGUE: During the attorney-client session, the board heard a presentation from outside counsel and adopted a recommendation supported by the Comptroller's Office and the Law Department, the details of which will be made public at the appropriate time.

(Discussion off the record.)

ACTING CHAIRPERSON AARONSON: In the executive session, the board received a report on proposed policy matters and initiatives.

We received a report on the quarterly performance and current fundamentals of the real estate private equity programs, and current fundamentals of the real estate private equity programs.

The board agreed to two RFPs. Details will be disclosed when the procurement is formally initiated.

The board received an update on a real estate manager. The board received an update on a private equity partnership. The board received an update on a potential vendor procurement.

Does that cover?

MR. LARSON: I'm sure it did.

Motion to adjourn.

ACTING CHAIRPERSON AARONSON: Any objections?

MR. McTIGUE: Second.

ACTING CHAIRPERSON AARONSON: We are adjourned.

(Matter concluded.)

(Time noted: 2:43 p.m.)

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

I, Jeffrey Shapiro, a Shorthand Reporter and Notary Public, within and for the State of New York, do hereby certify that I reported the proceedings in the within-entitled matter, on Thursday, March 4, 2010, at the offices of the NEW YORK CITY TEACHERS' RETIREMENT SYSTEM, 55 Water Street, New York, New York, and that this is an accurate transcription of these proceedings.

IN WITNESS WHEREOF, I have hereunto set my hand this _____ day of _____________, 2010.

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JEFFREY SHAPIRO