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NEW YORK CITY TEACHERS' RETIREMENT SYSTEM
INVESTMENT MEETING
held on Thursday, May 2, 2013
at
55 Water Street
New York, New York

ATTENDEES:

MELVYN AARONSON, Chairperson, Trustee, TRS
SANDRA MARCH, Trustee, TRS
MONA ROMAIN, Trustee, TRS
PATRICIA REILLY, TRS
JANICE EMERY, Trustee, Finance
JUSTIN HOLT, Trustee, Finance
LARRY SCHLOSS, Trustee, Comptroller's Office
THADDEUS McTIGUE, Trustee, Comptroller's Office
JOSEPH LOUIS, Trustee
JENNIFER MALDONADO, Trustee
SAM FLAKS, TRS
JOEL GILLER, TRS
MARC KATZ, TRS
RENEE PEARCE, TRS
PAUL RAUCCI, TRS,
LIZ SANCHEZ-PAZ, TRS
SUSAN STANG, TRS
MARTIN GANTZ, Comptroller's Office
SEEMA HINGORANI, Comptroller's Office
JANET LONDONO-VALLE, Comptroller's Office
BARRY MILLER, Comptroller's Office
YVONNE NELSON, Comptroller's Office
PETRA NOVITSKY, Comptroller's Office
JARROD RAPALJE, Comptroller's Office
ROBERT NORTH, Chief Actuary
ROBERTA UFFORD, Groom Law Group
ROBIN PELLISH, Rocaton
MICHAEL FULVIO, Rocaton
STEVE BURNS, Townsend
ISHIKA BANSAL, Townsend
MICHAEL KOENIG, Hamilton Lane
COREY ENGLISH, Hamilton Lane

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P R O C E E D I N G S

(Time noted: 10:00 a.m.)

MS. REILLY: Good morning. Welcome to the May 2, 2013 investment meeting of the Teachers' Retirement System. I will start by calling the roll.

Melvyn Aaronson?

CHAIRPERSON AARONSON: Here.

MS. REILLY: Justin Holt?

MR. HOLT: Here.

MS. REILLY: Jennifer Maldonado?

MS. MALDONADO: Present.

MS. REILLY: Sandra March?

MS. MARCH: Present.

MS. REILLY: Mona Romain?

MS. ROMAIN: Here.

MS. REILLY: Larry Schloss?

MR. SCHLOSS: Here.

MS. REILLY: We have a quorum.

I'll turn it over to the Chair.

CHAIRPERSON AARONSON: Thank you very much. Today we will start with the public session on the pension fund.

Larry?

MR. SCHLOSS: Sure. Let me start with a couple of brief comments before we get to the numbers.

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There's a lot of stuff going on, more than usual. It's slowly going to make its way to the market, so I predict the markets will be more volatile from here. By that I mean, we seem to be having our annual seasonal slowdown right around now. It's happening.

It's a little annoying, particularly as the Fed tries to get out of the business of buying $85 billion of bonds every month. I think they're kind of stuck. They discussed this question yesterday by saying "Maybe we'll buy less, maybe we'll buy more, but we'll pay attention and be helpful." I'd say the Fed is extremely helpful.

It manifested itself in the last couple of weeks by, in the first quarter earnings results of U.S. companies, revenues were short. Earnings are close, but revenues are short. So it's coming out of margins, and coming out of margins means you don't hire more people.

So it's kind of slow, it's still slow, the unemployment rate is going down, but it's too slow. So that being said, at some point the cycle picks up, so the housing market is picking up. Construction jobs are going up, so that's good.

But over all the economy is sort of listing its way upward. At the same time, Europe, surprisingly, is having a deeper recession than people thought. I

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don't know why they think there would be a deep recession, but they're having a deep recession.

Japan showed up in the last month or six weeks and said, "We're going to double the supply of yen," which means the yen per dollar is going to go down, so they're going to depreciate their currency.

When you depreciate a currency, it means, if you're a Japanese investor, the numbers are like 97 and a half percent of all Japanese government bonds are owned by Japanese. So if you're a Japanese insurance company and people have said we're going to depreciate the currency, it means maybe you shouldn't own Japanese bonds, you should own something else.

The something else is European issued bonds and U.S. government bonds. So the combination has led to more distortion in the fixed income markets. So it's a little bit like QE3 and a half, or 3 three-quarters. Now you've got the Japanese buyers coming to buy U.S. government bonds, you have the Fed buying U.S government bonds, so rates are going back down, which is good.

But it's not as planned. It's not like just the Fed is going down. Now you have other governments coming in to buy these bonds.

The good news is rates are down, staying down, and since investors are in search of making a

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profit, obviously not bonds, even though rates go down and spreads continue to narrow, it's sort of like a balloon, squeeze a balloon and it pops out someplace else. And where is it popping out? It's popping out in the U.S. equity markets; which is good. Our biggest asset class is U.S. Equity.

We'll see. The whole thing is nerve-wracking to the extent that when you push on the U.S. stock market prices go up. They're going up but fundamentals are going down, so you've got this dislocation. At some point it all bounces back. There's a mess coming, but in the meantime we're making a lot of money, so it's sort of okay.

So why do I say that? If you go to page 39 --

MS. MARCH: We hope it holds true until June, and worry about it next year. Right, Mr. Actuary?

MR. NORTH: Indeed.

MR. SCHLOSS: So we have a good running start on June. This is what happened in March. March, the U.S. market went up 4 percent. EAFE was up about 1, emerging markets was down about 2, Treasuries were flat. And the high yield was up another 1 percent.

So a good month, again.

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If you now go to page 35, you can see how we're set up quite nicely for this kind of market, overweight U.S. Equities. And we're underweighted governments. We'll talk about us getting out of this bracket in a second, rebalancing ranges. But we're sort of leaning into the right places in this kind of market.

So the combination of the market going up and us being overweight U.S. Equities leads to page 40; which shows in the month of March we made about 2 percent. So our fiscal year to date is up to about 12 and a half percent. Those are great numbers. If we stopped the year now it would be great, not really necessary.

I think April was also positive, so 12 and a half plus. So if you go to page 33 then, you look at the total assets of the fund, at the end of March, positive April, we're up to about $49.6 billion dollars; highest ever. At some point it's a lot of money. I'd tell you about now it's a lot of money.

All the managers are doing plus or minus all right. And again, between now and the end of June I expect more volatility, but I'd like to think we don't give up 12 and a half, end up with a positive year. It's a question of how much.

With that, any questions?

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Good month. All things are good.

With that, let's talk about the rebalancing ranges. I'll hand it over to Robin.

MS. PELLISH: So we have sent out in advance, and we have more color copies if you would like a presentation. This is part of the package, and a discussion that arose last month or the month prior, as well, about --

MR. FULVIO: We distributed color copies.

MS. PELLISH: -- reevaluating the parking place that's included in the rebalancing ranges for emerging market debt allocations. A 3 percent target allocation to emerging market debt. That's also included in the book.

(Indicating.)

And so Rocaton agreed it made sense to reevaluate the parking place for emerging market debt until that allocation can actually be invested. And so these slides present our thoughts on that reevaluation. Mike Fulvio will comment.

MR. FULVIO: Keeping it high level, as Robin mentioned before, EMV was part of the last asset allocation review. As you might recall, this is a strategic target of 3 percent, which is approximately 1 and a half billion dollars based on the current assets

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in the program.

Page 2 talks a little about what are the considerations that we would suggest are important when looking at parking assets until allocations can be fully invested.

And so, some of the things we were discussing were, Do you really want to pick parking places that keep the spirit of the asset allocations that was approved in the first place? So you don't want to change the profile of the program just because you're parking assets on a temporary basis until you can invest them.

So with that, one of the main things you want to look at is, you want to examine the characteristics of those parking places you are considering and find parking places that are liquid, liquid enough that you can invest the assets when the time comes without having any concerns about moving money around. And you want to minimize unintended risk associated with investing in those parking places over the short term.

So the keys are minimizing intended risks and making sure you're not deviating from the strategy agreed upon. And what we looked at were a whole slew of statistics, and there's some detail on the prior pages.

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But with regard to EMV, today EMV's assets are being allocated 50 percent in high yield, the other 50 percent is being allocated in the Core+5 program.

And based on the analysis that we conducted, we're recommending that the 50 percent in high yield remain there, and the other 50 percent, instead of being invested in Core+5 or parked in Core+5 assets, we would park half of that 50 percent in Core+5 in emerging market equities, and the other half in cash.

And the slides talk in a little more depth about the analysis; but what we're seeing is, based upon the timeline that is expected to do a full blown EMV search, it's likely something that would be completed over the next nine to twelve months. So it's not a very long term allocation.

And essentially, based upon the way the plan is allocated today from an asset allocation standpoint, the money would not necessarily have to move around. For all practical purposes, it really just moves the rebalancing ranges around the current allocations.

So while we think there is a more improved way of thinking about how you park those assets, there is not necessarily any transactions going on, based on the plan assets today.

MR. LEWIS: On the correlation analysis that

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you did, why did you assume the emerging market debt was denominated in U.S. dollars? I assume that's what we did?

MS. PELLISH: When we did the asset allocation analysis several years ago, we used an emerging market debt asset class that was exclusively denominated in hard currency, primarily dollars.

The emerging market debt asset classes evolved significantly over time, so that today there's an equal volume of local currency denominated emerging market debt.

So we ran the analysis two ways: One, using a U.S. dollar denominated benchmark; and the other looking at a fifty-fifty mix of dollar denominated and local currency dollar denominated emerging market debt.

And no matter which way you look at it, we come up with the same conclusion, that a fifty-fifty mix of cash and emerging market equity makes sense.
When actually implemented, when BAM goes to implement that 3 percent target allocation to emerging market debt, I think at that point there is some further analysis about the specific kind of mandates that are going to be awarded, whether they're exclusively hard currency or whether there'll be a mix of local and hard currency.

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So we wanted to look at it both ways to make sure the recommendation didn't change as a result of deciding between local currency and hard currency, and the recommendation didn't change.
MR. SCHLOSS: Makes sense to me. It seems intuitively a little better than what we had. I think it's great. It's sort of odd that don't move any money as a result of it, but that's just fortuitous.
MS. PELLISH: So it's a function of a couple of things. One, we're already underweight Core+5. And two, we're really not talking about a very significant percentage of the fund's assets. We're talking about moving half of the 3 percent EMV target, which is 1 and a half percent.
So therefore, given the relatively modest size of the adjustment, as well as the fact we're currently underweight to Core+5, and we do have some cash in the plan, there are actually no immediate transactions that would be required as a result of changing the parking place.
MR. SCHLOSS: Perfect.
MR. HOLT: Is it 1 and a half percent or is it .75 percent? I see 25 percent of the 3 percent, too.
MR. FULVIO: The 1 and a half percent Robin was referring to was the half that's allocated to Core+5

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today.
MR. HOLT: Okay. If we were to pull the trigger on it immediately, it would be about 370 odd million, the size of the transaction?
MR. SCHLOSS: There is no transaction.
MR. HOLT: Parking spot?
MS. PELLISH: So it would be about $750 million if we do anything to that.
MR. SCHLOSS: There's nothing to do.
MS. PELLISH: Yes. In the hypothetical scenario if we were going to do something, it might involve as much as $150 million. And today, given the actual asset allocation, it's not required.
MR. HOLT: It would be for about a nine month holding period?
MS. PELLISH: I defer to BAM in terms --
MR. SCHLOSS: We haven't done an educational

session for the board. Maybe nine months to a year.

MS. MARCH: We're restrained by the fact that -- even though, Mr. Schloss, I want to thank you for expediting the RFP process, we're still not in the real investment world. And maybe sometime in the future we will find an administration that is willing to understand that the assets that we invest in retirement systems cannot wait forever because of the RFP process,

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and we will be able to move to an RFI process.

But I thank you for your efforts, but that's why it's a nine month process.

MR. HOLT: Does that have any relation to the conversation at hand?

MS. MARCH: It has a relation to my desire as a trustee to say it; and being here a long time I have a right to say it. You have to have a little history, and when you understand what's going on, it is nine months.

MR. HOLT: For history, I wouldn't mind a little background on what you're going up on.

MR. LEWIS: Nine months in the real world for corporation companies and otherwise is not unreasonable. The idea of nine months is somehow outside of markets, that is not true.

MS. MARCH: It used to be two years, and if it weren't for Larry Schloss it wouldn't be nine months.

MR. SCHLOSS: To bring you up to speed. So, it used to take 17 months on average to finish an RFP. We got it down to nine months. We've now changed the procurement process. It's been --

MR. McTIGUE: CAPA, City Administrator Procedure Act.

MR. SCHLOSS: Ideally, through CAPA. I'm

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not sure what that is.

(Laughter.)

There's a thirty day comment period somewhere, and ideally the rules change. If the rules change, that lends itself to a better, quicker RFP process. And once we have the rule change, I'd say it's a great time to start new RFPs. I have no idea when that would happen.

MR. McTIGUE: To follow-up on your point, Larry, the PPB board voted the ruling post CAPA. The comment period for a public hearing is established, the PPB board takes into account the comments that are made either in writing or through the public hearing. They'll consider those comments and then ideally the PPB board will vote to finalize the rules and move to adopt it through the city regulations.

MR. SCHLOSS: Ideally that happens this calendar year.

MR. McTIGUE: That would be the plan.

MR. SCHLOSS: The next calendar year, under the new rules for an RFP -- we get five months from whenever we start.
MS. MARCH: Hopefully someday it will be done as it is in the rest of the world.
MR. LEWIS: Which is nine months.
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MS. MARCH: Not Variable A, it doesn't.
CHAIRPERSON AARONSON: I don't think Vanguard and its fund wait nine months to invest their money.
MS. MARCH: They don't. When we want to invest something in the tax deferred annuity program variable, it doesn't take us nine months. It doesn't take that long and it doesn't have to.
CHAIRPERSON AARONSON: Where are we now?
MR. SCHLOSS: We agree with this new change in the parking places. We would like you to approve this new change. I'm asking for consensus. It involves no movement of dollars, it just moves ranges, no investment dollars.
CHAIRPERSON AARONSON: There is consensus on this side.
MR. HOLT: Can we consensus before we do make a transaction at some point to get a sense for what the transaction costs will be?
CHAIRPERSON AARONSON: As far as I understand, there is no transaction costs, no fee; and before we do any transactions, we revisit it.
MR. HOLT: Okay.
CHAIRPERSON AARONSON: That's what I believe I heard.
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MR. SCHLOSS: All right.
Just so I'm clear, you want to get the way of the normal rebalancing?
MR. HOLT: No. I just want an understanding, having traded in some of these securities in the past, I know it can be a little illiquid. If it's going to run 100 basis points on each side of the trade to go in, and another 100 basis points to get out, we should be cognizant of that before --
MR. SCHLOSS: Martin?
MR. GANTZ: Two things. Number one, it's not each side, it's only one side because we're not moving any money now. So you're talking about potentially one side in the future when we fund.
Number two, you're making an assumption of where the asset will be at the time. At the time that we make the selections and the fund, the managers, we will see where we're overweight and underweight and we'll apprise the board at that point where the money is coming from.
It may in fact come from emerging market

equity, but it may not. So we don't know at this point where that will be.

MR. SCHLOSS: To your point, Justin, I'd like to have consensus without any qualifications,

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because I don't quite understand what your qualifications meant.

MS. MARCH: Larry, you have consensus without qualifications.

MR. SCHLOSS: Okay.

That ends our public session for the pension fund.

CHAIRPERSON AARONSON: We're now ready to move on to the Passport funds.

MS. PELLISH: So everyone should have a copy of the March report for the Passport fund. Certainly Variable A, you can see we're approaching -- million dollars -- as Larry already noted, the rising equity market has been very beneficial for Variable A.

You can see that the total fund performance for the month of March was almost 3 and half percent. So for the calendar year to date, the return for Variable A was approaching 10 percent.

I don't think there's any particular commentary that I'd make about the managers, other than to note that, as has been the case for some time now, the international equity composite, although actually the performance is reasonable given the asset class, the performance of the international equity composite was 5 percent for the quarter, so slightly less than half of

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the U.S. Equity market. That's the total return down. Over the long period of time you expect the allocation to diversify the portfolio.

It's worth noting -- I think it's interesting to note, Larry alluded to the U.S. dollar. In local currency markets, looking at the return of the EAFE index, so developed markets, international stocks, was almost double that 5 percent. So local currency, the EAFE index would have returned 10 percent.

But when you translate that back into U.S. dollars it declines by half. That tells you how significant an impact the strength of the U.S. dollar is having on U.S. dollar-based investments overseas.

I am happy to answer any questions. It's a great month, great quarter for the equity market. I think in general managers' performance is up to expectations for that period of time.

We also have some information about the other variable funds. You can see Variable B, which is invested in short term bonds, yielded 25 basis points return. So, as Larry alluded to, the Fed is keeping rates low, the short end of the curve, where they can control rates. These are the kind of returns savers get, very high quality, short --

The international equity option, which is

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Variable C, as mentioned before, yielded a return of slightly over 5 percent. So around 5 and a quarter percent return of the benchmark. And that's for the quarter to date period. The one year period return for this composite is 11 and a quarter percent. So, although it's lower than the U.S. equity, it's still a strong positive return.

And we can also look at the inflation protection fund, which is invested in the PIMCO All Asset Fund. For the month of March that was flat. For the quarter that's up slightly under 1 percent. Again, that's invested primarily in fixed income instruments.

Then finally, the socially responsive equity fund, the Neuberger Berman vehicle, is up over 15 percent for the quarter. They had some ground to make up from last year, and was doing quite well and making up a lot of that ground.

I'm happy to answer any specific questions you have on the variable fund performance. We also distributed estimates of performance for the month of April. And as Larry mentioned, a strong equity market continued during April. The Russell 3000 was up 1.6 percent for the month. On a year to date basis it returned almost 13 percent.

The EAFE index actually gained a lot of

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ground during April, so in April the EAFE index is up over 5 percent; so starting to approach the calendar year to date returns for the U.S. Equity market. We can see that the Variable B generated about 30 basis points in the month the April. And the PIMCO all asset fund remained 2 percent. And the socially responsive fund was essentially flat.

So a strong equity market in April for the U.S. and international equity markets, with bonds remaining flat.

Any questions?

MR. SCHLOSS: Nothing like the markets going up.

MS. PELLISH: That concludes our public agenda for the variable funds.

CHAIRPERSON AARONSON: Now we need a motion to go into executive session.

MS. MARCH: I make a motion to go into executive session under Public Officers Law 105 so that we can discuss sales and security of our assets.

CHAIRPERSON AARONSON: Second?

MR. SCHLOSS: Second.

CHAIRPERSON AARONSON: Any discussion?

All in favor?

(A chorus of "Ayes.")

Any opposed?

We're now in executive session.

(Recess.)

CHAIRPERSON AARONSON: We have to go back to public session.

Do I hear a motion?

MS. MARCH: I move we go back into public session.

MR. SCHLOSS: Second.

CHAIRPERSON AARONSON: Any discussion?

Seeing none, all in favor?

(A chorus of "Ayes.")

Any opposed?

We're now back in public session.

Susan, will you report in public session what we did in executive session?

MS. STANG: In the executive session of the pension fund an update of one convertible bonds manager was presented.

A presentation on a real estate investment was received and discussed. Consensus was reached, which will be announced at the appropriate time.

A presentation on a private equity investment was received and discussed. Consensus was reached, which will be announced at the appropriate

time.

There was a discussion of a contract for a service provider. Consensus was reached, which will be announced at the appropriate time.

CHAIRPERSON AARONSON: Thank you very much.

That concludes business today.

Do I have a motion to adjourn?

MS. MARCH: I make a motion to adjourn.

MR. SCHLOSS: Second.

CHAIRPERSON AARONSON: Any discussion?

Seeing none, all in favor?

(A chorus of "Ayes.")

Any opposed?

We are adjourned.

(Time noted: 12:02 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, May 2, 2013, at the offices of the NYC TEACHERS' RETIREMENT SYSTEM, 55 Water Street, New York, New York, and that this is an accurate transcription of these proceedings.

IN WITNESS WHEREOF, I have hereunto set my hand this _____ day of _____________, 2013.

____

JEFFREY SHAPIRO