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NEW YORK CITY TEACHERS' RETIREMENT SYSTEM

INVESTMENT MEETING

Held on

Thursday, May 14, 2015,

at 55 Water Street,

New York, New York

at 9:49 a.m.

ATTENDEES:

JOHN ADLER, Chairman, Trustee
SANDRA MARCH, Trustee
THOMAS BROWN, Trustee
SCOTT EVANS, Comptroller's Office
RAYMOND ORLANDO, Trustee
SUSANNAH VICKERS, Trustee
CHARLOTTE BEYER, Trustee
DAVID KAZANSKY, Trustee, Comptroller's Office
PATRICIA REILLY, Teachers' Retirement System
MELVYN AARONSON
MARTIN GANTZ, Comptroller's Office
WESLEY PULISKIK, Comptroller's Office

REPORTED BY:
YAFFA KAPLAN
JOB NO. 170940

ATTENDEES (Continued):

MICHAEL KOENIG, Hamilton Lane
CORI ENGLISH, Hamilton Lane
SUSAN STANG, Teachers' Retirement System
MICHAEL FULVIO, Rocaton
ROBIN PELLISH, Rocaton
DAVID LEVINE
VALERIE BUDZIK, Teachers' Retirement System
PAUL RAUCCI
RENEE PEARCE
PETCHA NIKALOVA, Comptroller's Office
EVAN NAHNSEN, Comptroller's Office
CHRIS PAK, Comptroller's Office
BRIAN COOK, Comptroller's Office
STEVE BURNS, Townsend
STEVE NOVICK, Townsend
ISHIKA BANSAL, Townsend
JANET LONDONO-VALLE, Comptroller's Office
BEN BLAKNEY, Cortland
ALEX DONE, Comptroller's Office
YVONNE NELSON, Comptroller's Office
JOHN MERSEBURG, Comptroller's Office
LIZ SANCHEZ, Teachers' Retirement System

Proceedings

MS. REILLY: We are going to start the May 14, 2015 investment meeting of the Teachers' Retirement Board. I will start by calling the roll.
John Adler?
MR. ADLER: Here.
MS. REILLY: Charlotte Beyer?
MS. BEYER: Here.
MS. REILLY: Thomas Brown?
MR. BROWN: Here.
MS. REILLY: David Kazansky?
MR. KAZANSKY: Here.
MS. REILLY: Sandra March?
MS. MARCH: Present.
MS. REILLY: Raymond Orlando?
MR. ORLANDO: I am here.
MS. REILLY: Susan Vickers?
MS. VICKERS: Here.
MS. REILLY: So we do have a quorum and I am going to start by asking if there are any nominations for an acting chair.
MS. MARCH: I so move that we nominate John Adler as acting chair, but before we do that process I would just like to take the opportunity to welcome my new colleague, David

Kazansky. Even though I miss my old colleague, I see him over there, it is my pleasure to welcome our new trustee on behalf of the membership. Now I will repeat my nomination for acting chair, Mr. John Adler.

MS. VICKERS: Second.

MS. BEYER: Second.

MS. REILLY: All those in favor, aye.

MS. BEYER: Aye.

MR. BROWN: Aye.

MS. MARCH: Aye.

MS. VICKERS: Aye.

MR. ORLANDO: Aye.

MR. KAZANSKY: Aye.

MR. ADLER: Aye.

MS. REILLY: Any opposition?

Okay, passes. So I will turn it over to the new chair, acting chair.

MR. ADLER: Okay, thank you, Patricia. And I will hand it over to our chief investment officer.

MR. EVANS: Thanks, Mr. Chairman. If you turn to page 39 of the flip book, just quickly survey the results. It's a down month for the markets. It's March we are talking about, by the way. Down month for the markets. We were down 42 basis points gross of public fees net of private fees versus our benchmark down 50. And so we are down eight basis points less than the benchmark. We are still trailing on fiscal year to date 325 versus 375.

If you turn to page 32, gives a look at our asset allocation. We remain pretty tight with our policy weights on the equity side on the left. One thing that's been going on since you all approved the removal of the bias towards small cap and mid-cap stocks. As we rebalanced, we have been removing some of that bias. It's taken us a little longer to do the bias trades, so you get frictional ownership. The markets are still in a pretty healthy place and we have been able to work out of those positions. So we are not all the way there towards the neutral buyouts, but over the next few month as we rebalance we will get to a neutral place in terms of cap size.

On the fixed side we continue to have the below=average weights in long=duration securities in blue and above-average weights in short-duration securities in gray. Leaving us about at the Barclays Ag in general, so neutral with the overall market. Nothing has changed there, although I will note that interest rates are beginning to percolate up for a variety of factors which Martin may want to get into some of them.

But I think we will -- I am going to turn it over to Martin and we will go through, very briefly through the March overview because we have a very long executive agenda and special presentation from Brian cook on ETI. So Martin.

MR. GANTZ: Thank you, Scott. Instead of going over all the March returns which are on page 27, Scott just went over it was a negative month. You can see on page 31, negative 32 basis points. I will give you a hint what's going to come next month, which is a better month which is April.

If you turn to page 29, you will see the Russell 3000 was up 45 basis points on the section on the left. Non-U.S. actually was up tremendously partially because EAFE emerging markets as you see in the chart that I am going to turn back to in a moment, the dollar strength reversed and also the QE is working. As we say here, don't fight the feds. I guess now don't fight the fed is now the answer with all the central banks core getting their quantitative fees and policies. So in combination with the euro strengthening and the dollar weakening and the QE taking effect actually has helped non-U.S. equity.

For the core plus 5, as Scott started saying, the interest rates started going up. I will show you a chart on that. So core plus 5 was down 45 basis points for the month. High yield was up. Bank loans were up. And TIPS were up a little bit, actually 74 basis points. Credits rates were up. REITS were down because they are tied to interest rates, but fiscal year to date they are up. They are still up double digits. So I would expect that fiscal year-to-date number, the 325, to have a 4 handle next month or close to it when we get there. We don't have -- we ran the unofficial numbers. It will be very close to that.

So let me turn back a couple of pages on the charts. Let's take a look at the ten-year treasury on page 20. Take a look all the way on the right. It only looks like a blip versus a five-year chart, so it's a scale issue. But the rates have, which were in the 180 to 190 range, the ten year --

MS. BUDZIK: It's not page 20.

MR. GANTZ: Oh, I'm sorry. I am looking at the book itself, this book, the page labelled page 20 on this book. I'm sorry, in the book with the color. You will see that the ten-year when we ran this a week ago was nearly 220. Fairly rapid rise. There are a number of factors to this.

There were negative rates in Europe. There were a lot of reasons for that. The ECB primarily behind that, but also once the ECB is behind that you then have fast money trading in that and driving rates even -- which we didn't think was possible. But obviously in case you are wondering, what does negative interest rate mean. It means you are buying a bond that you are guaranteed will end up with a loss. So you are lending money to the government of Germany and you are going to get at maturity less money than you gave. That's what the negative interest rate is which should not be possible, but it is. So what happens is that trade in Europe has somewhat dissipated and it has had an effect here.

In addition if you take a look at the oil prices which is the previous page, we have had a fairly sharp move up from the lows. Lows in the 40s are now in the 60s a barrel which is still again a blip on the chart, but it's a fairly sharp rise on a percentage basis. That's a 50 percent rise.

MS. MARCH: The price of oil, the gas.

MR. GANTZ: This is part of what's going on with the currencies, the dollar, and with the long rates which is a part of our rationale for having that underweight. The credit markets and equity markets are still, as Scott already mentioned, quite healthy. As you see in the volatility index on page 18, it's still fairly low.

The other chart I wanted to show you on here is page 5 of the book which is the white line which is U.S. equity has done very well and has for years been ahead of the EAFE and emerging markets, but you will see the other lines are starting to catch up because of the QE starting there and the QE ending here.

Those are my comments. Any questions? Scott.

MR. EVANS: Okay, hearing no questions, why don't we move to Brian Cook to do an education seminar to the trustees on our ETI portfolio.

MR. COOK: Brian Cook. And Chris Pak is going to pass out the presentation. So while he is doing that hello, everyone, Mr. Chairman. My name is Brian Cook. For those of you who don't remember me, I am the director of the Economic Development Bureau, the head of the ETI program. Chris Pak is the director of ETI in my bureau and we work to help invest in New York City on behalf of the pension boards.

So we were asked to go through sort of a brief overview over what the ETI does, workforce housing, how we are investing right now. So that's what this presentation is geared to. I am used to a New York audience, so please ask questions if there are any. Don't stand on formality. And when we hit the end of the table, I will start.

All right, so just to start off, what are the economically-targeted investments? The first thing to note is we are not an asset class. We are actually an investment strategy. So we can invest across any asset class working with the different asset classes in them. The strategy is to reduce volatility and increase diversification of the New York City Pension Fund assets. Our returns must be commensurate on a risk-adjusted basis with any other return you would get in any other asset class. So if we do fixed income, it has to be equivalent to fixed income when we factor in risk. We do have to track collateral benefits. By that I mean, how are we helping low middle, and moderate-income New Yorkers in the five boroughs or the six surrounding counties. We have some minimum investments and we have an open RFP, but when taking that together what does it really mean? It means we are working to reduce risk in the portfolio by investing in the people of New York City who need it most.

If we jump to the next slide, that means most of what we are doing is in affordable housing. There are a lot of reasons for this. One, it's a very developed market and also it's a real need. We know in New York City rents rose 75 percent compared to the rest of the country which only saw rents rise 44 percent. We lost 400,000 units renting to people making less than $40,000 in a ten-year period over the last decade. Some of this is due to wage -- we are having this impact due to wage stagnation and we are basically seeing this mismatch of demand and supply. I will say there are a lot of theories behind it. I have theories that disagree with some more conservative people, but we do know some of the root causes and that includes the rising land and construction costs. Those are very, very much impacting it.

MS. MARCH: It also has a need, a profit motive.

MR. COOK: There is absolutely.

MS. MARCH: A profit motive.

MR. COOK: Particularly in some of our,

should we say, emerging neighborhoods that many of us thought were emerged when we moved into them decades ago.

So just to go on the next slide, I just want to give some definition so we are speaking the same language. Affordable housing in my mind is anything with a regulatory agreement. It's something that says it must be affordable to this population for this period of time. Workforce housing can be a little broader. It's anything that sort of invests in that middle-market people who are in New York City who are working. This includes a lot of rent-stabilized units which may not be targeted to an individual, but are affordable to an individual. It can be affordable housing, but doesn't necessarily have to be. And the pension fund right now have our workforce housing limit capped at 200 percent of the area median income. And just for reference, I included last year's 100 percent of AMI both by income and by rent. And you can do the math up and down, as you so choose.

If we go to the next slide, I am not

going to dwell on this very long because -- but this is the type of information we look at. And I am trying to figure out a way to show this in a little bit of a better graphical way, but the most important thing is if we look at sort of the very last column of both these charts, at the very top of both these charts it's rent versus income. What we see is we are actually adding people who are making lower income while at the same time we are losing rents on those levels, losing apartments for rent at those levels. This is at heart the problem that we are facing in New York City. It's both sides of the equation. It's not just we are losing these affordable units; it's also that on average New Yorkers are making less money, you know, as a total.

If we go to the next slide, so we all know that there has been a big housing plan. What does this mean? 200,000 units are planned over the next ten years. We know that's broken between preservation and construction and, most importantly, for us the total plan is supposed to be about $41.1 billion. 25 percent will come from public dollars, 75 percent from private according to the mayor's housing plan. That could shift one way or another, as I imagine the markets dictate. But from 2014 to 2018, HPD has laid out its capital budget of what's going to be spent in New York City by the federal, state and city dollars. It's about $3.1 billion. So if we hold ratios kind of constant, that means the market we are competing for in affordable housing is about $9.3 billion over the next four years. And it's not just us competing for it. It's banks that need CRA credits, the Community Reinvestment Act, that requires them to invest in low-income neighborhoods. It's non-profits that want to build affordable housing because that's their mission. Churches, even private developers who have found ways to make money off of this who want a piece of this pie, but this is where we are targeting. So how do we do that, what are we doing now?

On the next slide, HPD stands for the Housing Preservation Department. Sorry.

MR. ORLANDO: Housing Preservation and Development.

MR. COOK: If I use any acronyms, let me know. AMI is area median income. I got asked that question the last time I did this.

So if you look at our current investments, they are basically sort of -- for lack of a better way to describe it, there are three places to invest in in affordable housing. It's construction, it's debt, and it's equity. Construction and equity are probably the most risky. Not probably, they are the most risky and our portfolio sort of shows that. We have -- you know, we have a smaller slice of the pie in those two pieces. Our debt programs are broken down into two different pieces. Our long-term loan program, the PPAR program and where we are participating on the secondary market through managers like AFL-CIO Housing Investment Trust as well as RBC Access.

If you go to the next slide, I should break down what those programs do, what we are seeing in some of the challenges. So the long-term loan program, this is the public/private apartment rehabilitation program. We purchased loans where for up to a

30-year mortgage, could be 15 or 30. We offer a rate lock two years in advance. We do have a floor of 4.5 percent and it's designed to be a buy-and-hold program and that's important to note. Our loans are originated by one of eleven lenders, though I should note Teachers only participates with ten of those lenders. One of them, Chase Manhattan, Teachers chose not to have originate loans for them. And basically all those loans must have insurance, so they have to have a public participation or regulatory agreement. We have standard loan documents. What we buy from them is basically a NYCERS loan. We set up the dictates of what that is. They go and find us the loans and they sell it to us.

So to give you an example of that this is one that just rate locked with us in December, 533 Bay Street. It's going to be senior housing in Staten Island. I actually like this one because it's in Staten Island and we don't get a lot of investments in Staten Island because of density issues. It's going to be 67 units for seniors making less than 50 percent of the area median income.

You can see it got some grants from New York State. It's going to have a $14 million construction loan. Most of that loan will be paid off through low-income housing tax credits, but the remaining $1.8 million of debt will come to us.

And to give you a sense of the process of that, if you go to the next slide you can see that in July, on July 14th, they were awarded money by the state. They went and found their financing with Wells Fargo and December, 2014 they reached out to the pension fund and asked us to guarantee their interest rate for the loan. That's what we call the rate lock. They are now in construction and by December, 2018 they are anticipated to sell us the loan. And after that point, once we have the loan, we will work on servicing the loan on behalf of the pension systems along with CPC, the Community Preservation Corporation, who is our servicer on.

MR. ADLER: Brian, one question. This is new construction?

MR. COOK: So this one is new construction.

MR. ADLER: But it's considered PPAR?
MR. COOK: Yes. So PPAR can do either new or rehabilitation. The name is a little bit off. Originally, I think the idea was it was going to do a lot more preservation. And by numbers we do probably see more preservation than new construction in this program, but there are cases like here where you are getting the low-income housing tax credit offset that makes it viable to go through our program.
MR. ADLER: Thank you.
MR. COOK: On page 10, just to give you a sense of what everyone must do at the different stages, this tells you what we are doing. What I like about this program is we run this primarily in house. So when it comes to the time of -- while banks are originating the loans and doing construction, they come to us to rate lock. Our staff are the people who are rate locking. We are reviewing the documents, making sure what they say it is complies. Once they fill up the building and are ready to sell it to us, they send over all the documents. Again, it's the staff, my team

as well as the general counsel's office who are reviewing all the legal documents, reviewing all the business terms, making sure everything complies. And then when it comes to servicing, even though we have an outside servicer we have monthly phone calls. We work with them. We are double-checking and making all the final decisions. So we are able to reduce the costs of a lot of this program by basically putting a lot of this inhouse.

And to give you a sense of what your returns have been in this program, page 11. I want to sort of note that these are mark-to-market returns as we are required by law to report. That being said, what you are seeing here isn't exactly what you will get over time. And the reason is that what you are actually going to get is the coupon rate in which we lock the loans however much the loan was actually worth. So we lock the loan at 4.5 percent, that's what the loan is going to get you. We lock it at 6.9 percent, that's what the loan is going to get you because it's buy and hold. However, by law we have to figure out how much the loans are worth if we were to sell them on the open market and that's what the mark-to-market tells you. So our returns are incredibly consistent and I would say, you know, over, you know, a 20-year period may range between 5 and 9 percent, depending on what the interest rates are doing, or 4.5 and 9 percent now. But on your mark-to-market you will see a fluctuation that will not actually be seen, realized in the actual cash returns you are getting. Does that make sense, everyone? Because it took me a very long time. Apparently I am slower than everyone. It's a lot of Chris walking me through and a lot of questions I asked.

The second thing we do is we participate on the secondary market. And if we go to page 12, we do this through two programs. We have the AFL-CIO Housing Investment Trust and RBC Access. These two programs participate both in New York City both in affordable housing, but in different markets. So RBC Access tends to focus on very large projects that need either rehabilitation or money. They only do union work, union construction work. And they have a lot of sort of capacity to do unique deals that other people don't, so they end up getting a lot of the large Mitchell-Lamas that we see across the city. And they are able to get a fairly good rate of return and consistent rate of return by targeting that way. RBC Access participates in primarily single-family home, so they look at Fannie Mae, Freddie Mae securities and they are looking to find loans that basically don't have predatory lending. We started with them in 2007.

MS. MARCH: Can I just ask a question? In RBC Access, do they at least pay prevailing wages to the people who are working?

MR. COOK: So in RBC Access we are getting Fannie and Freddie loans after they are completed. So basically once somebody has actually moved into the loan, so we have no way to document that to be truthful. And it's single family. In fact, most of our prevailing wage laws don't affect single-family homes.

MR. ADLER: I think you can be reasonably sure that the answer is no.

MR. COOK: They do, I will note,

participate a little bit in the multifamily home world. They do buy some HDC bonds and in those cases you will have a prevailing wage requirement. Whether it's enforced or not is a good question.

MS. MARCH: I thought we had prevailing wage requirements as a board.

MR. ADLER: I think -- I think it's the prevailing wage responsible contractor. It's market driven and the reality is the market in single-family homes is not prevailing wage.

MR. COOK: And I think the challenge here is because we are buying the debt after it's occupied rather than equity, like we are actually owning the property. We are getting basically finished product where a low-income New Yorker has already moved into his home and that's what we are buying, the debt on that. If we go through, I have two examples that we have from AFL-CIO HIT mainly because I -- these are contrasting examples of new construction versus preservation.

On page 13 we have the Harry Smith Houses. This is a very large Mitchell-Lama that actually exited Mitchell-Lama and then came back in, so it was a great win for New York. And we are actually doing the rehabilitation of that allowing it to remain affordable and creating 15 new union construction jobs at the site.

On the second page we have Hunter's Point South, Building A which is 619 affordable units. It has a range of income from as low as 50 percent of AMI to up to a 165 percent of AMI and there is a 5 percent preference for city municipal employees. But this is new construction and because this is AFL-CIO HIT, remember they only do union construction work. So this is actually one of the few big new construction projects in the outer boroughs that I can confidently say is definitely union.

MS. MARCH: Say it positively though.

MR. COOK: I am very positive about this. There is a smile on my face. I don't know where the cameras are.

So we have the returns and you can see them on pages 15 and 16 for either. These are very consistent returns, which is good. Because these are backed securities, it's incredibly safe. And in this case where you are seeing the mark-to-market, you are actually seeing the value of the investment, what it's actually performing unlike the PPAR. So this is the true returns in the end. The only thing that I will note is that right now because we are in a low interest rate environment, these are doing very well compared to even the other private markets. They are at least on par or slightly better than the other construction loan programs. As we rise into higher interest rates and other people do riskier things, these may not perform quite as well. But they will -- because they are very stable, you hopefully won't see a major downturn.

All right, and the last slide -- or, no, second-to-last slide, we do have construction in equity programs for their types. These are relatively new, so I don't want to go too deep into the examples. We have the CPC construction facility which we approved last year. This is a facility that allows CPC to finance this construction. We are about 10 percent of the overall facility. It's actually a small investment compared to what we normally do, but it does feed the PPAR program so it started to already have benefits towards us on the longer term. So while it's a little bit riskier, it's a lot less of it. But it has a long-term benefit. And then the equity programs which were started under related -- under Sandy which included related Hudson and MS, each of them are investing in some way in workforce housing. And as you will hear Yvonne tell you the extent of the longer-term investments, so we realize a little bit what they are doing in the long horizon.

And the last thing I wanted to show you, which is something that we can do now that previously we have never been able to do, on slide 18. A first sense over where all the investments of the five pension funds are. We spent a very long time culling data, signing nondisclosure agreements, correcting data to try and get a real sense of where the investments are happening. And one of the things you will see is we are starting to get a very good outer borough representation through all our programs. There are things we are trying to suss out and hopefully I will have more information for you later. Where you see the large blips on that map, a lot of that is actually an AFL-CIO HIT where they invested in a couple of thousand apartments in one set.

So that's where we are and I am happy to answer any questions.

MS. MARCH: I just want to say thank you and I want to say that I think sitting at the table as the longest-time person, the ETI program has been a program that this board has been so proud of and so happy with because it is marvelous to see the results. But also on the side, it has been a program that has totally been managed within the comptroller's office, historically overall comptrollers, and we are very proud of this program. We would like to see more of it. We would like to see more affordable and workforce housing. We have not been successful in convincing the market, the real estate market to do it. So if we can do it within the ETI program, let's show them how successful we can be and let's do it because this is a city that needs to have housing for both people who have less money and people who are on the lower end of the income scale. So at least for myself, I hope I can say we thank you and we thank all of the staff at the comptroller's office who have been involved in this long-time extremely worthwhile program.

MR. COOK: Thank you.

MR. EVANS: Can I ask you a question. What's the total allocation to ETI, the room that you have to expand, and where are you now and why haven't you used the full capacity?

MR. COOK: So we have the ability to go up to 2 percent. We are right now across the five systems at about 1 percent. And there are slight variations depending on how long we have been in the program, but overall it's a good benchmark. So the challenges that we have been facing, so the first is on the PPAR program. We have room to grow. You have allocated more money than we have out there. Part of that is how much is HPD putting out into the market and whether or not they are going to come to us. We are competing against

HDC, we are competing against Fannie Mae and some of that is because they are reaching out to us. And there is a lot of reasons why people come to us. We have to wait and see whether or not in the next two, three years we are going to see a ramp-up. So that's the first.

On the secondary markets the challenge is actually not putting too much money into the market, because we have -- we have enough money we can actually drive down interest rates and actually hurt our own returns. So one of the things we have been looking at very closely is how are HEC bonds selling, how are Fannie selling. And the current low interest rate environment in the federal government I believe is making our secondary bond market in New York City very desirable to banks and investors, so we have a bit of that competition.

And the last is really equity. And equity is the place where we have probably done the least amount and, quite frankly, it's the most challenging. So one of the things we are going to be looking at is A, I think there is probably some room to grow in the secondary market in the coming years. We have to do it in such a way that we are not competing against ourselves at the very least and not going to put so much we are going to drive ourselves down, but there are some creative thoughts we are going to have to really hit that.

MR. EVANS: So to Sandy's point the problem is the market, the availability of accessible investments in the market, not the amount we are allocating. So we are trying to aggressively find ways to find suitable investments either in the traditional avenues or in the real estate portion of our portfolio. Brian and Yvonne have been working together on a couple of things. You will hear about one of them today when Avanath pitches to you, so we are actively considering it. Brian has got plenty of capacity, but we are looking for ways to your point what can we do, how can we be involved in situations where we can get an acceptable return for our pensioners, and also invest in this part of the market which is quite attractive when we

can find opportunities.
MS. MARCH: I would like to continue this conversation later.
MR. COOK: Absolutely.
MR. ADLER: Thank you, Brian.
Anything else for public session?
MR. EVANS: That does it, Mr. Chairman. We are ready to move to --
MS. VICKERS: I'm sorry, I have an item I don't know if it should be in public session, the calendar for the June 4th meeting.
MS. MARCH: You want to discuss that now? Whatever you want.
MR. ADLER: Why don't we -- I suggest that we do it. We don't need to take public session to do that. We can figure it out and then announce it when we resume public session at the end. Is that okay?
MS. BUDZIK: That's fine.
MR. ADLER: So do I hear a motion to move into executive session? Sorry, it's not that time yet. A little growing pains here on the part of acting chair.
So now we are in public session for the

Passport Funds. And, Robin, are you going to take us through?

MS. PELLISH: Yes, and Mike will.

MR. FULVIO: Good morning, everyone. So why don't we begin with the March, 2015 performance report for the Passport Funds, the document with the bars on the front. We will begin with the performance for the Diversified Equity Fund. At the top of the page, you can see at the end of March the fund had $11.3 billion in assets. You can see below that how the assets are allocated among the underlying composites. For the month of March the funds reported returns of about negative 1 percent, roughly in line with both its hybrid and broad U.S. equity market benchmarks. You can see under that the returns were driven by the underlying strategies, roughly the similar returns. We did see a little bit of underperformance in the international strategies relative to the U.S. for the month, but just to the right of that you can see on and off for the year-to-date period non-U.S. equity markets have contributed to the performance of this fund having outperformed the U.S. by more than a couple percentage points of about 4.6 percent relative to the U.S. market, up about 2 percent. So we are seeing some help from non-U.S. markets in this fund which we hadn't seen for quite some time.

And you can see in the one-year column for the Diversified Equity Fund, the fund was up about 9.5 percent. That trails the hybrid benchmark by a little bit less than a half percent and it trails the broad U.S. equity market by more than a few percentage, just shy of a few percentage points which returned 12.4 percent. And, again, a lot of that underperformance was due in part to non-U.S. equity allocation in the strategy which is there for diversification, but also as you can see below that there was some trailing by the defensive strategies which we would expect to see in pretty strong up markets in the U.S.

The defensive composite returned positive 7.5 percent relative to the broad U.S. equity market of 12.4 percent. There was a little bit of lag among the active managers within the defensive strategies composite. You can see that benchmark at about 9.5

percent. But all in all if you look below that, the two more actively-managed parts of the portfolio, the active U.S. active composite and the International Equity composite, both ahead over the last 12 months net of fees. The stronger of the two, the U.S. managers having added about 80 basis points of outperformance. And though only modestly ahead of non-U.S. equity markets, the non-U.S. managers have also contributed to the portfolio performance on a relative basis.

Just below that you can see the bond fund. Assets for the end of the month were about $335 million. It was an up month for the fund returning about positive 35, 36 basis points, roughly in line with its benchmark. Over the 12-month period the fund was up just shy of 2 percent, roughly again also in line with its benchmark up about 2 percent.

So for the International Equity Fund we noticed some issue with the performance calculations as shown on this page and we are working with the accounting group to better understand the source of the discrepancy, but I call your attention to the International

Equity composite for Variable A for the Diversified Equity Fund which is indicative of what we would expect the returns to be for the International Equity Fund. And again we would expect that fund to be down in the area of about 1.4 percent and for the trailing 12-month time period we would expect that fund to be down about 30 basis points, roughly in line of slightly trailing the EAFE index.

MS. BEYER: So you think that down 6 percent is a mistake?

MR. FULVIO: Yes. We are working to understand the source of the discrepancy and we will report back to the board as soon as we do.

Moving ahead, the Inflation Protection Fund, assets at the end of the month at about $43 million. The fund as a whole was down 1 percent roughly in line with its benchmark. And as you can see below that, at the request of the board we added CPI to this report. The fund for the month lags CPI which was modestly positive, but you can see over long-term time periods this fund has added value, significant value relative to CPI. Over the one-year period, the fund was roughly flat to modestly negative to the tune of 15 basis points. That is ahead of its custom benchmark as well as slightly lagging the CPI over the 12-month time period.

Just below that, the Socially Responsive Equity Fund with assets of about $102 million at the end of the month. The fund was down roughly 60 basis points and that's about 1 percent ahead of the U.S. large cap market as measured by the S&P 500 benchmark. You can see for the longer term one-year period the funds returned positive by about 11.5 percent, trailing that same S&P 500 proxy by about 125 basis points. But still pretty strong returns for this fund on an absolute basis going back to the fund's inception.

MR. ADLER: Just to be clear: These returns are net of fees, correct?

MR. FULVIO: These returns are all net of fees, that's correct. I should also note that the total fund returns for the overall Passport Funds also is net of administrative expenses and then the returns that you see later in the report for each of the managers take into account all of the investment expenses as well.

Those were the remarks for the Passport Funds. Are there any questions? Again, we are also happy to continue enhancing this report with any feedback that the board has. We are happy to address those.

So why don't we move ahead to this other report. This is the performance report for April for the markets. You can see toward the top of the page of the high-level benchmarks for the Diversified Equity Fund. The Russell 3000, the broad U.S. equity market as it represents was up about half a percent for the month of April, bringing the calendar year to date return to positive 2-1/4 percent.

Just below that the developed non-U.S. market proxy EAFE index was up about 4 percent for the month, bringing the calendar year to date number to about 9.4 percent. The defensive strategies benchmark was up about 90 basis points. A little notable, that it was ahead of the Russell 3000 index which usually you see a little lagging relative to that benchmark. But the rationale for that is, again, the diversified nature of that benchmark. It does include some non-U.S. exposure, which you can see above as we mentioned has had a good month of April.

And then just below that, the Diversified Equity Fund benchmark up about 1 percent and up about 3-1/2 percent year to date. And you can see below those returns, the other returns through the other benchmarks, although they are all somewhat similar to what we include in the Diversified Equity Fund.

And that's the public agenda.

MR. ADLER: Okay, any questions?

Okay, so now a motion is in order to move into executive.

MS. MARCH: I move that pursuant to Public Officers Law's Section 105, to go into executive session with discussions regarding the purchase of sales of securities and updates of specific investment managers.

MR. ADLER: Is there a second?

MS. BEYER: Second.

MR. ADLER: Okay, any discussion? All in favor please, aye.

MS. BEYER: Aye.
MR. BROWN: Aye.
MS. MARCH: Aye.
MS. VICKERS: Aye.
MR. ORLANDO: Aye.
MR. KAZANSKY: Aye.
MR. ADLER: Aye. Opposed, any abstentions?
Okay, the motion carries. Take a short break; is that right?
(Recess taken.)
MR. EVANS: Mr. Chairman, that concludes the matters that we had for executive session.
MR. ADLER: Thank you.
Can we have a motion to come out of the executive session and go back into public session?
MS. MARCH: So moved.
MR. ADLER: Is there a second?
MS. BEYER: Second.
MR. ADLER: All in favor of coming out of the executive session back into public session, please say aye.
MS. BEYER: Aye.
MR. BROWN: Aye.

MS. MARCH: Aye.

MS. VICKERS: Aye.

MR. ORLANDO: Aye.

MR. KAZANSKY: Aye.

MR. ADLER: Aye. Opposed?

We are back in public session. Okay, Susan, if you would.

MS. STANG: In executive session it was agreed that the next investment meeting date was moved to June 22nd.

In the executive session for the variable fund a presentation about performance fees was received and discussed. In executive session for the pension funds there was a discussion of fees and after-fee performance of the pension funds across all asset classes. An exception to the infrastructure IPS was discussed. Consensus was reached which will be announced at the appropriate time. An opportunistic fixed income investment was presented and discussed. Consensus was reached which will be announced at the appropriate time. Two real estate investments were presented. Consensus was reached which will be announced at the appropriate time.

Two private equity investments were presented and discussed and there was a presentation on the emerging manager program within the private equity asset class, which was presented and discussed.

MR. ADLER: Thank you.
Is there a motion to adjourn?
MS. MARCH: So moved.
MR. ADLER: Second?
MS. VICKERS: Second.
MR. ADLER: All in favor say aye.
MS. BEYER: Aye.
MR. BROWN: Aye.
MS. MARCH: Aye.
MS. VICKERS: Aye.
MR. ORLANDO: Aye.
MR. KAZANSKY: Aye.
MR. ADLER: Aye.
[Time noted: 4:23 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 18th day of May, 2015.

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YAFFA KAPLAN