

NEW YORK CITY TEACHERS' RETIREMENT SYSTEM
INVESTMENT MEETING

held on Thursday, June 5, 2014

at

55 Water Street

New York, New York

ATTENDEES:

MELVYN AARONSON, Chairperson, Trustee, TRS

THOMAS BROWN, Trustee, TRS

SANDRA MARCH, Trustee, TRS

PATRICIA REILLY, Executive Director, TRS

THADDEUS MCTIGUE, Deputy Executive Director, TRS

CHARLOTTE BEYER, Trustee, Finance

CAROLYN WOLPERT, Trustee, Finance

SUSANNAH VICKERS, Trustee, Comptroller's Office

JOHN DORSA, Trustee, Comptroller's Office

BRIAN COOK, Comptroller's Office

MARK DARVIS, Comptroller's Office

MARTIN GANTZ, Comptroller's Office

SEEMA HINGORANI, Comptroller's Office

YVONNE NELSON, Comptroller's Office

MICHAEL GARCIA, TRS

RENEE PEARCE, TRS

PAUL RAUCCI, TRS

SUSAN STANG, TRS

ROBERT C. NORTH, JR., Actuary

CHRIS LYON, Rocaton

ROBERTA UFFORD, Broome Law Group

KEITH SNOW, Corporation Counsel

P R O C E E D I N G S

(Time noted: 10:04 a.m.)

MS. REILLY: Good morning. Welcome to the June 5, 2014 investment meeting of the Teachers' Retirement System of the City of New York. I will start by calling the roll.

Mel Aaronson?

CHAIRPERSON AARONSON: Here.

MS. REILLY: Charlotte Beyer?

MS. BEYER: Here.

MS. REILLY: Sandra March?

MS. MARCH: Present.

MS. REILLY: Thomas Brown?

MR. BROWN: Present.

MS. REILLY: Susannah Vickers?

MS. VICKERS: Here.

MS. REILLY: We do have a quorum.

CHAIRPERSON AARONSON: Thank you very much.

There's a few announcements I'd like to make before we get to the agenda. One announcement is that, you recall last month that Mona Romain is retiring and will no longer be a member of the retirement board.

P R O C E E D I N G S

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MS. REILLY: Good morning. Welcome to the June 5, 2014 investment meeting of the Teachers' Retirement System of the City of New York. I will start by calling the roll.

Mel Aaronson?

CHAIRPERSON AARONSON: Here.

MS. REILLY: Charlotte Beyer?

MS. BEYER: Here.

MS. REILLY: Sandra March?

MS. MARCH: Present.

MS. REILLY: Thomas Brown?

MR. BROWN: Present.

MS. REILLY: Susannah Vickers?

MS. VICKERS: Here.

MS. REILLY: We do have a quorum.

CHAIRPERSON AARONSON: Thank you very much.

There's a few announcements I'd like to make before we get to the agenda. One announcement is that, you recall last month that Mona Romain is retiring and will no longer be a member of the retirement board.

Tom Brown was elected by the members of the retirement system to represent them as an employee representative. And so we welcome Tom to his first meeting.

MR. BROWN: Thank you.

(Applause.)

CHAIRPERSON AARONSON: I have two other announcements about people that we are very much involved with, and people we care very much about. For many years the investment committee of the Teachers' Retirement System has had as its attorney Roberta Ufford -- and Roberta is going to be resigning from her position with the Broome Law Group, and I just want to thank Roberta for many, many years of service to this board and for always giving us good legal advice.

Thank you very much.

MS. UFFORD: Thank you.

(Applause.)

CHAIRPERSON AARONSON: And now, I want to make a third announcement related to personnel. For the last six months or more, Seema Hingorani has been the chief investment officer at the Teachers' Retirement System. Before that she spent many years in the Bureau of Asset Management, at the Tom Brown was elected by the members of the retirement system to represent them as an employee representative. And so we welcome Tom to his first meeting.

MR. BROWN: Thank you.

(Applause.)

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Thank you very much.

MS. UFFORD: Thank you.

(Applause.)

CHAIRPERSON AARONSON: And now, I want to make a third announcement related to personnel. For the last six months or more, Seema Hingorani has been the chief investment officer at the Teachers' Retirement System. Before that she spent many years in the Bureau of Asset Management, at the

Comptroller's Office.

She has always wisely considered every single investment that she was involved in, and that's all of them since she became the chief investment officer. As some of you may have heard, a new chief investment officer was retained, and Seema is going to be resigning from the Comptroller's Office. And we are going to miss her very wise counsel on investments.

Seema, you have remarks you would like to make?

MS. HINGORANI: Yes. Thanks Mel, for the kind words.

As Mel mentioned, I will be leaving the Comptroller's Office June 30. I really just want to thank all of you for a fantastic four years. It's really been a privilege to serve the Teachers' members, retirees and beneficiaries, and I'm so proud to have contributed, along with everyone in this room and the entire BAM team, to the strong results of the Teachers' pension fund over the last four years. So thank you, thank you very much.

MS. MARCH: Thank you.

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MS. MARCH: Thank you.

CHAIRPERSON AARONSON: I think when we look at the record, it may very well be that the last

four years has been the best four years of returns the Teachers' Retirement System ever had. So thank you.
(Applause.)

CHAIRPERSON AARONSON: The order of business today is going to be that we will do the variable annuity public agenda. We will then do the public agenda of the pension fund, and we will then go back to the executive agenda for the Passport funds, and then we will go to the executive meeting for the pension fund.

And at the end of all of that, for Board members only, there is going to be a lawyer-client conference. So, thank you.

Chris?

MR. LYON: Good morning, everyone. I'm five days better after having laryngitis, so I will speak quickly in an effort to not run out of voice. Hopefully you will hear me okay.

We will start with the Passport funds, the quarterly report, which was handed out today, but also distributed in advance. What I'm going to try not to do is cover performance, because that was covered at the last meeting for this time period, which was June 30. I'm just going to make a couple OF other observations about risk and portfolio structure as we four years has been the best four years of returns the Teachers' Retirement System ever had. So thank you.

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go through.

If you turn to Tab 2, we have information with a lot of detailed commentary on the diversified equity fund. What I'm accustomed to saying, and I usually feel I can say this without having the report in front of me, when you look over the long time periods for diversified equity funds, typically they have less return volatility than the broad U.S. Equity market.

For this particular observation window of five years through March 31, that's no longer the case. Some of that has to do with what dropped out of the moving five year window as opposed to what's new in terms of the newest observations and how the portfolio is positioned.

And so, this is the first five year period that doesn't include the worst six months of the financial crisis. So that has something to do with it as well. It starts April 1, 2009.

And so, in any case, this is something that, if it persists, we will do a lot more work on, but we can't guarantee that the fund will always meet its objectives, return on risk or otherwise. But on a rolling basis we certainly had less volatility most of the time.

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And so this is something that we're going to be monitoring closely and doing some more work on.
CHAIRPERSON AARONSON: Thank you.

MR. LYON: And then if you turn ahead to page 8 -- that was covering page 6 -- if you turn ahead to page 8, you can also see how some of the underlying composites compare on a risk-return basis to their respective benchmarks.

For instance, in the middle of the page we have the defensive strategies composite and benchmark. And you can see that within that composite there are pretty similar risks, but the green cross is the actual portfolio, while the blue diamond is the benchmark. So it's skewed a little toward the riskier side there, as well.

Whereas in the case of the international, although the performance didn't quite keep up, there also was less risk realized in that portfolio; those are the two observations to the right. So the yellow circle is the benchmark and the brown diamond is the actual portfolio.

In general, the underlying composites were relatively close, but there were some differences there.

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across the defensive strategy composite in more detail. And this is important to spend time on periodically together, as this is one of the main reasons why the overall portfolio continued to have less risk than the broad U.S. Equity markets. And so what you can see is that the managers in the composite, particularly those with longer track records, did have significantly less risk than the broad U.S. Equity market, which is fairly clear.

What else is interesting is the middle box, which shows the up market and down market capture. So about 63 percent of the upside has been provided. In other words, if the market is up 10 this will be up 6.3. But on the downside, the composite has only captured or experienced 47 percent of the downside volatility. So a much smoother ride intended to damper the overall portfolio risk experience. You can, lastly, if you look at the right, the the single largest active manager by allocation is GMO, and they're a tactical allocation strategy, and you can see that they remain in the 60 percent equity range; so not very far from the target and not very far from the experience post-financial crisis.

Any questions about anything else you'd across the defensive strategy composite in more detail. And this is important to spend time on periodically together, as this is one of the main reasons why the overall portfolio continued to have less risk than the broad U.S. Equity markets. And so what you can see is that the managers in the composite, particularly those with longer track records, did have significantly less risk than the broad U.S. Equity market, which is fairly clear.

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like me to address in this fund, before we move to the next section?

So behind Tab 3 we have some information about the Bond fund, formerly known as Variable B. And you can see the allocation information on the top. All of the portfolio now is either going to be cash or managed by NISA. And at this point the GIC are no longer in the portfolio. Those are legacy insurance contracts that made sense to hold until maturity. They have now all matured.

If you look down on page 19, you can see how the portfolio is positioned. This portfolio has a yield on the underlying securities of about 1 percent, and that's consistent with it being a lower duration portfolio. You can see that the duration is right in line with the benchmark, in the 2 and 2 two-thirds percent range at the top of the page.

It's a very conservative portfolio, both in terms of how much interest rate exposure or duration we have, as well as in terms of the mix between Treasuries and credit, where we have a much larger weight to Treasuries, consistent with the benchmark.

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Any questions?

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another three Passport fund choices. The first is the international equity fund, which of course is a composite that is unitized and is the same underlying portfolio that's used in the international portion of the diversified equity fund.

And you can see the manager mix and allocation here on page 24. And then if you look at page 25, just to point out that this portfolio provides very broad diversification, having multiple managers as well as index components.

So on the top right box in the bottom row, you can there is exposure to over 1100 securities in the portfolio at quarter end, which is more than the EAFE benchmark. And the weighted average market cap, this is very large a cap portfolio, characteristic and relatively in line with the benchmark. You can see at the top holdings, as well, if you are interested.

On page 27 is the Bond Inflation Protection Fund. And while this is an investment option primarily invested in one underlying investment strategy, that strategy return has the ability to invest across virtually all of PIMCO's underlying funds that they make available.

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tactical approach with the goal of outpacing inflation over a long time period, and that's the goal they're trying to achieve. Right now you can see, if you look how the allocation has been trending, the equity allocation, while 18 percent, is much higher than it's been since you had this option available.

So that's not concerning in any way, but to shed light on PIMCO and the underlying manager, who actually works for a fund outside PIMCO, but manages this fund for them, what their views are on the markets.

Interestingly TIPS, while it had even a smaller percentage, it's still a very low percentage of this fund, even though it's designed to outpace inflation, because of other inflation asset classes beyond TIPS they're getting that exposure from.

Lastly on page 28, a snapshot of the socially responsive equity portfolio. Unlike the international portfolio, this is a much more concentrated approach -- and while the diversified portfolio by sector and other characteristics, there are, as you can see on the top right box, just 37 securities in the portfolio, 37 underlying stocks. And so this is the profile. But that means that this is very much a weighted approach by tactical approach with the goal of outpacing inflation over a long time period, and that's the goal they're trying to achieve. Right now you can see, if you look how the allocation has been trending, the equity allocation, while 18 percent, is much higher than it's been since you had this option available.

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the active manager. And so you might find it interesting to note that over 40 percent of the portfolio is in the top 10 -- what you want on conviction, fairly active managers who do in terms of expressing views relative to the benchmark. And then for your reference, but we're not going to go through it, there's a very detailed quarterly market review behind the last tab. I will stop there and see if there are any questions before I move forward with the agency reports.

CHAIRPERSON AARONSON: Any questions?

MR. LYON: Thank you.

Next we have the April performance reports, and I'll start with the diversified equity fund. These were also sent around and e-mailed, too. You can see at the end of April that there was \$11.3 billion in assets, and that the target allocations, the actual allocations were fairly close to target as measured by the composites. So none more than a percent over or under respective targets.

You may also have noticed this is the first report without the manager that we moved away from, Rainier. They no longer appear, there's no longer an allocation there as of April 30. the active manager. And so you might find it interesting to note that over 40 percent of the portfolio is in the top 10 -- what you want on conviction, fairly active managers who do in terms of expressing views relative to the benchmark. And then for your reference, but we're not going to go through it, there's a very detailed quarterly market review behind the last tab. I will stop there and see if there are any questions before I move forward with the agency reports.

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If you fast forward to page 3, the performance for the month of April was positive; that's the good news, but was small, 0.2 percent of return, a little ahead of the U.S. Equity market as measured by the Russell 3000, a little bit behind the hybrid benchmark.

And part of that was due to the active manager composite underperforming, because it's been pointed out on the positive side a number of times recently, but it is active and it's not always going to outperform. And therefore for the year to date it's a little behind the broad market.

Not hearing any questions, I'll go on to the next April performance handout, the Bond fund. And here you can see the monthly return of the total investment option of .26 percent, in line approximately with the .3 percent return of the benchmark. And the allocation and duration is similar to what was in the quarterly report.

On the following page you have the international equity inflation protection and socially responsive equity options. You can see the asset information at the top, the international equity over \$100 million, inflation protection at \$41 million, and \$73 million for socially responsive equities.

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And for the month the international fund returned 1.45 percent, which is within basis points of the benchmark, a little behind it. All these results are net of fees, by the way.

The inflation protection option returned 1.2 percent, which is a little bit ahead of its benchmark.

And lastly, the socially responsive option had a very slight negative return, .3 percent, while the benchmark was .74, in positive territory. So its recent performance has been fairly strong, but for the year to date it trails by about 2 percent; again, consistent with the active concentrated strategy.

Any questions?

Lastly, we do have a handout to preview May returns. And what we can see from the handout for the month of May, that equity strategies in general were in positive territory; about 2 percent of return, a little higher for the U.S. and lower internationally.

Conservative fixed income had a slight positive return, and we can see also the mutual funds attract in which we invest, some of the strategies down towards the bottom, also had 1 to 2 percent type returns.

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So May was a pretty good month, mostly all around, and I look forward to sharing results with you at a future time.

Any questions?

I think that's everything that we have for the Passport fund portion of the public agenda.

CHAIRPERSON AARONSON: Thank you very much.

MR. LYON: Thank you.

CHAIRPERSON AARONSON: Ready for the public part of the pension.

MS. HINGORANI: Thank you.

We have first on the agenda the quarterly reviews. I just wanted to now open it up for any questions -CHAIRPERSON

AARONSON: Is there an extra copy of this?

MS. HINGORANI: At this point I want to open it up and see if anyone has any questions, anything related to the public markets, ETIs. We have the entire team here, private equity, real estate, everyone is here. So if there are any questions we're here to answer them. Otherwise I will move on to the next agenda item.

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Thanks. Next up is the April monthly

performance report review. Everybody has their color version, so extras down there -Martin, before we get to the April numbers and the May numbers, I thought we would talk a little bit about what's been happening in the markets. Interestingly, similar to what we talked about last month.

We still have evidence that the U.S. economy is doing okay. The U.S., the EAFE and the emerging markets are actually still reasonably priced, and in some cases, like with emerging markets, are actually still looking cheap relative to the ten year price to earnings multiples, their average.

The ten year Treasury, it's still sitting at 2 and a half percent. In fact, it actually dipped a bit below, for a short period of time, below 2 and a half percent. So, in that sense there's more evidence that while the U.S. economy is doing okay, it's not doing so strong, that that would trigger the Fed to consider raising rates anytime soon.

So the bond markets are happy about that, as are the stock markets.

So basically what we've had is a pretty good backdrop for the Teachers' pension fund portfolio, and we'll go through those numbers and show performance report review. Everybody has their color version, so extras down there -Martin, before we get to the April numbers and the May numbers, I thought we would talk a little bit about what's been happening in the markets. Interestingly, similar to what we talked about last month.

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you how that shaped up.

CHAIRPERSON AARONSON: Before we go on, Seema, the first quarter of 2014 had negative gross domestic product GDP. Does that change your thoughts about what's happening in the economy?

MS. HINGORANI: Actually, a lot of the numbers that were shown were related to weather. So lots of folks have factored that in to their projections. And so, for the rest of the year nothing has really changed in terms of being significantly more negative than people expected. So I think for the rest of the year, from what I've seen, estimates are still pretty stable.

With that, we will turn to page 27. This is the month of April. Chris has already shown some of these numbers, but I will go through a couple of them.

The Russell 3000 in the month of April was up about 12 basis points. So flat, but up a little bit. The EAFE markets, the developed markets, up 1.45 percent. The emerging markets up 33 basis points, which actually is a continuing trend, you might remember from the months prior, emerging markets are now coming back.

Core+5, if you scroll down some more rows, you how that shaped up.

CHAIRPERSON AARONSON: Before we go on, Seema, the first quarter of 2014 had negative gross domestic product GDP. Does that change your thoughts about what's happening in the economy?

MS. HINGORANI: Actually, a lot of the numbers that were shown were related to weather. So lots of folks have factored that in to their projections. And so, for the rest of the year nothing has really changed in terms of being significantly more negative than people expected. So I think for the rest of the year, from what I've seen, estimates are still pretty stable.

With that, we will turn to page 27. This is the month of April. Chris has already shown some of these numbers, but I will go through a couple of them.

The Russell 3000 in the month of April was up about 12 basis points. So flat, but up a little bit. The EAFE markets, the developed markets, up 1.45 percent. The emerging markets up 33 basis points, which actually is a continuing trend, you might remember from the months prior, emerging markets are now coming back.

Core+5, if you scroll down some more rows,

was up a little over a percent.

If you turn to the next page, 28, it shows high yield for the month of April, up about 70 basis points; and TIPS up 1.35 percent.

So pretty good month in April, but as Chris also mentioned, May was a spectacular month, relatively speaking. In the month of May the Russell 3000 was up 2.18 percent. The EAFE markets were up 1.77 percent. The emerging markets up 3 and a half percent. Core+5 was up 1.46 percent. High yield was up about 93 basis points. And TIPS were up 2.27 percent.

So, if you turn to the next page, 29, again it's showing the month of April and where returns have come from. You can see here for the one month the total fund was up about 60 basis points.

That's on page 29.

If you scroll over a couple of columns, then the fiscal year to date total fund return; again, through April, is up 13.61 percent. Now, if we add in May, which we just went through the strong numbers, and we estimate May was up about 2 percent, that means that the Teachers' pension fund is up about 15.6 percent.

MS. MARCH: We will take it.

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MS. HINGORANI: Through May.

CHAIRPERSON AARONSON: Hear that, Mr. North?

MR. NORTH: I heard; it's good.

MS. HINGORANI: June is going to serve us well, and it's a very strong number.

CHAIRPERSON AARONSON: Do you believe in the Wall Street adage, "Sell in May and go away"? (Laughter.)

MS. HINGORANI: At this point I'd like to do that.

Then on page 30, this shows our asset allocation and how we're set up. Again, this is through April 30. You can see here a couple of things. If you look at the green bar to the left, down below in that chart, and then the blue bar to the right, you can see here, as we discussed earlier, a few months even, it's now within the ranges of U.S. Equity and Core+5. And we've been that way for a month or so now. As we were selling down U.S. Equities with strength.

And then you'll see here that the total assets under management for the pension fund at \$56.1 billion, again through April 30. I can tell you, as of June 2, 2014, the pension fund is now at \$57.1

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billion; which is the highest the pension fund has been, which is great.

If you turn to page 35, and look a little at some history, here we have the one year market value for the pension fund. And again, you will notice that in April 2014 we had \$56.1 billion, and as mentioned we're now \$57.1 billion. So basically in this one year time period the pension fund is up \$7 billion; great result.

And the next page, 36, these are the ten year market values for the pension fund, and it's a nice chart. So you can see here down below the ten year return for the Teachers' pension fund as of April 30, you're up nearly 7 and a half percent. And hopefully June, it will look a little higher. So very good, strong results.

Now, the next several pages, as you know we have the monthly performance by managers. We've got the private equity and real estate cash flows. And so if there are any questions we will take those, otherwise we'll move to the next item.

CHAIRPERSON AARONSON: Anybody with a question?

MS. HINGORANI: Thank you.

The next item for us is an update on the billion; which is the highest the pension fund has been, which is great.

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CHAIRPERSON AARONSON: Anybody with a question?

MS. HINGORANI: Thank you.

The next item for us is an update on the

basket clause. I'll turn it over to Susannah.

MS. VICKERS: Thanks, Seema.

No real update. Things are moving along as well as they can in Albany. We expect, I think the basket clause bill will come out of committee in the Senate maybe next week, an emerging sign.

We have, as everybody knows, bipartisan sponsorship. A lot of trustees have been very helpful making their support known through letters or talking to elected officials. There is still time for that if anybody wants to do that. We have a lot of information that we circulated that we can send around again.

So it's moving and we're cautiously optimistic.

Does anybody have any questions or thoughts on the basket? We'll just keep our fingers crossed.

CHAIRPERSON AARONSON: Nine days left, is my understanding.

MS. VICKERS: Yes.

MS. MARCH: It can happen in two hours, two and a half minutes. You'd be surprised what happens in the last 2 and a half minutes.

MS. VICKERS: We'll send around a text at basket clause. I'll turn it over to Susannah.

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MS. VICKERS: We'll send around a text at

11:59 on the last night.

CHAIRPERSON AARONSON: Thank you for that report.

MS. HINGORANI: So that concludes the public agenda for the Comptroller's Office.

CHAIRPERSON AARONSON: Thank you very much.

MS. MARCH: I make a motion under Public Officer Law 105 that we go into executive session for the purpose of discussing sales and securities.

MS. BEYER: Second.

CHAIRPERSON AARONSON: Any discussion?

All in favor?

(A chorus of "Ayes.")

Any opposed?

We're now in executive session.

11:59 on the last night.

CHAIRPERSON AARONSON: Thank you for that report.

MS. HINGORANI: So that concludes the public agenda for the Comptroller's Office.

CHAIRPERSON AARONSON: Thank you very much.

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MS. BEYER: Second.

CHAIRPERSON AARONSON: Any discussion?

All in favor?

(A chorus of "Ayes.")

Any opposed?

We're now in executive session.

(Whereupon, executive session began.)

CHAIRPERSON AARONSON: Do I have a motion to leave executive session?

MS. MARCH: Motion to go out of executive session.

CHAIRPERSON AARONSON: Second?

MS. WOLPERT: Second.

CHAIRPERSON AARONSON: Discussion?

In all in favor?

(A chorus of "Ayes.")

Any opposed?

We're out of executive session; and we would like to have a summary. We will wait until Liz gets here.

(Whereupon, the Board returned to public session.)

CHAIRPERSON AARONSON: Susan?

MS. STANG: In the executive session for the variable funds, one manager update was presented. In the executive session for the pension fund, several manager updates were presented. A presentation on an ETI investment was received. Consensus was received and will be announced at the appropriate time. An update on the MWBE program was presented.

CHAIRPERSON AARONSON: Does anyone have anything else to discuss at this meeting? Seeing none, do I have a motion to adjourn?

MS. MARCH: Motion.

MS. BEYER: Second.

CHAIRPERSON AARONSON: Anybody opposed? We're adjourned.

I'll ask the board members only to stay for the attorney-client session.

(Time noted: 11:10 a.m.)

(Matter concluded.)

(Whereupon, the Board returned to public session.)

CHAIRPERSON AARONSON: Susan?

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MS. MARCH: Motion.

MS. BEYER: Second.

CHAIRPERSON AARONSON: Anybody opposed? We're adjourned.

I'll ask the board members only to stay for the attorney-client session.

(Time noted: 11:10 a.m.)

(Matter concluded.)

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, June 5, 2014, 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 7th day of June, 2014.

JEFFREY SHAPIRO

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