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NEW YORK CITY TEACHERS' RETIREMENT SYSTEM
INVESTMENT MEETING
held on Thursday, June 7, 2012
at
55 Water Street
New York, New York

ATTENDEES:

MELVYN AARONSON, Chairperson, Trustee, TRS
SANDRA MARCH, Trustee, TRS
MONA ROMAIN, Trustee, TRS
JANICE EMERY, Trustee, Finance
LARRY SCHLOSS, Comptroller's Office, Trustee
JAMIE SMARR, Trustee
NELSON SERRANO, Executive Director, TRS
SUSAN STANG, TRS
JOEL GILLER, TRS
MARC KATZ, TRS
ELIZABETH CALDAS, Comptroller's Office
ADI DIEGI, Comptroller's Office
MARTIN GANTZ, Comptroller's Office
SEEMA HINGORANI, Comptroller's Office
THADDEUS McTIGUE, Comptroller's Office
KATHY MARTINO, Comptroller's Office
BARRY MILLER, Comptroller's Office
YVONNE NELSON, Comptroller's Office
MORAIMA PERES, Comptroller's Office
WESLEY PULISIC, Comptroller's Office
ROBIN PELISH, Rocaton
CHRIS LYON, Rocaton
MICHAEL FULVIO, Rocaton
ROBERTA UFFORD, Corporation Counsel
LOUIS MAZAWEY, Groom Law Group
MICHAEL KOENIG, Hamilton Lane

0002

P R O C E E D I N G S

(9:50 a.m.)

CHAIRPERSON AARONSON: Mr. Serrano, will you call the roll?

MR. SERRANO: Good morning. We'll begin the June 7, 2012 meeting by calling the roll.

Melvyn Aaronson?

MR. AARONSON: Here.

MR. SERRANO: Kathleen Grimm?

(No response.)

Not present.

Frieda Foster?

(No response.)

Not present.

Sandra March?

MS. MARCH: Here.

MR. SERRANO: Janice Emery?

MS. EMERY: Here.

MR. SERRANO: Mona Romain?

MS. ROMAIN: Here.

MR. SERRANO: Larry Schloss?

MR. SCHLOSS: Here.

MR. SERRANO: We have a quorum.

CHAIRPERSON AARONSON: Thank you very much.

0003

The first item on the agenda today is the pension public report. So, Mr. Schloss.

MR. SCHLOSS: Thank you, Mel.

Let's start with the quarterly report before we ended March 30. We do this reasonably and quickly since all the numbers are out of the day and the news items are really happened in May, so it's our ancient history.

Martin?

MR. GANTZ: In addition to being ancient history, we also went through the March numbers, it's last month, so we're just highlighting -- actually this quarter ended was highlighted and we will take a look from there.

So, the quarter ended March, just to remind you, there was, unlike the significant weakness that was seen lately in the stock market, there was good robustness return and risk taken in the stock market. Despite what's going on in Europe, as we shall see, in the numbers of the quarter ended March, returns were quite strong in the Russell 3000, up 12 percent in the quarter; emerging markets up over 14 percent and even EAFE, which includes Europe, was up over 10 percent; investment grade fixed income obviously, because they were selling Treasuries and other less risky assets. By

0004

the risky assets, roughly flat, but high yield is up 4.5 percent.

All in all, this brought the fiscal year-to-date concerning the Teachers as well as one year return back to the positive territory.

Within U.S., the small mid large, all in the 12 to 13 percent range. The real difference was growth being value, as investors get or take on more risk.

Page 9 shows the returns for the fund quarter ending March and you'll see the market value is $44.7 billion. The return is very strong, on an absolute basis is 8.5 percent behind policy benchmark. And as I mentioned before, the fiscal year to date ending numbers, well behind the policy benchmark.

Positive numbers are two or three-year number -- much stronger number because the September or -- also the December of 2008 quarter included the Lehman quarter, that's a rolling you have three year number and that's why the five-year number drops so much like that.

As time goes on, you will see it goes up. The next three pages you have seen now basically we have the -- from the 10, 11 and 12, the old positive, new policy and the adjusted new policy, Larry pointed to last month. But we also updates as to what we have done and what the market's done since then. But at that

0005

point, we were overweight equities, specifically in public markets and we were underweight in Core+5 and high yield. And high yield, we were underweight because it is a sort of parking place for other assets.

Opportunistic, we also were underweight and we're in the process in getting that --

The next few pages show attribution of returns for pages 13, 14 and 15 for quarter -- two-year period. For the quarter, the allocation effect was actually positive. The managers, however, was negative, and much of that, if you would look to page 16, was to the private equity. There's two things, returns versus where they should be, the benchmark, that is; and number 2 is a lagging effect. So, it was a combination of those two.

For the one-year period and the three-year period, the numbers are similar except for the negative allocation effect. That is the result of being underweight Core+5, which is well on the relative versus the other sectors, as well as cash. That's any cash that was held in an up market.

I want to draw your attention to how you did versus other large public funds, and the answer is you did well. The first on page 17, page, on the left is the quarter. The return of 806 which is just outside

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the top quartile. I will mention if you look at the bars on the page, in other words, this --

(Indicating.)

-- part of the page, the spread between the top quarter, each quarter is very, very far. But nevertheless, you were in the 28th percentile and for the year ending March, which is sort in the middle towards the right, the 506 which is in the top quarter.

Annualized, that's on the next page. It is 1 through 5, 7 other year numbers. Again, one-year number, you're in the 16th percentile but the same as three and four-years, you're in top quartile. So, that puts you in very good --

Unless your questions is on that, I'm going to return it over to Seema for some comments on the portfolio.

MS. HINGORANI: Okay. Thanks, Martin.

If you turn to page 21, it starts out with the domestic equity allocation. As you know, Teachers is about 82 passive in U.S. Equity. And of the asset allocation, I apologize, I just want to point you to a couple columns here in the index return, the actual return and then the difference column.

So, Martin already mentioned this, but the U.S. Equity markets had a very strong quarter. There is

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one typo, I guess, here. I want to point out the mid-cap has to be 400 index fund. Actually, the 13 1/2 percent. So, that's the strongest number of U.S. Equities and you might remember that we over-allocated a little bit to mid-cap, so that actually helped us in the quarter.

But equally strong were small cap and large cap. Active is up 12.44 percent, that's the Russell 2000; and then the Russell 1000 up 12.9 percent. Still a strong quarter.

And then if you look at the difference column, you will notice that pretty much all of the active managers outperformed in the quarter. There are just a couple of exceptions in the emerging manager group. But some strong numbers there.

If you turn to the next page, 22, that shows small cap return, the one small cap active manager, Brown. So in the trailing three months, the quarter outperformed the benchmark. And over a longer term period, the trailing 12 months, you see nicely outperforming, and the trailing two years also nicely outperforming the benchmark.

If you turn to page 24, it shows you large cap active managers, which as you know is a developing managers; in the quarter, outperforming the benchmark

0008

and the fiscal year to date a little outperforming the benchmark over a large term period. They had a tougher time and we'll be talking about large cap managers later on.

If you then turn to page 29, I'll go to the international allocation that you have. And a couple points here. So, unlike in the U.S. Equity portion of about 80 percent of your EAFE allocation is actively managed. And you also made your first active allocation in emerging markets, you will remember that was on Eaton Vance. Then we were going to continue to invest in active emerging markets going forward.

But again, if I just point out a couple of columns here, the index return, the actual return and the difference column, as Martin mentioned also, EAFE markets were up almost 11 percent in the quarter. Emerging markets had a very strong quarter being up 14 percent, the best of all the markets in equities.

And with EAFE, it was mostly more certainly about the Greek bailout in the quarter, the euro strengthened.

But nonetheless in the quarter, you had two strong numbers.

MR. SCHLOSS: Whatever she just said, the reverse happened. Disregard the last minute what she

0009

just said.

(Laughter.)

MS. HINGORANI: It's all different now.

So, if you look in the difference column, you have a couple of real strong performers, non-U.S. activist, that's Governance for Owners on a 500 basis points outperformed. In that index, the 16 1/2 percent return from the index is mid-euro index. So, it is small and mid-cap stocks in Europe have done especially well in that quarter.

And then your non-U.S. environmental investments, those guys outperformed in the quarter as well, though they had a tougher time longer term.

If you go to the next page which is more detail on the EAFE markets -- page 30 -- you can see in the quarter just a bit behind the EAFE index fiscal year to date doing better than the index. And that really was Walter Scott, which is one of your stronger managers.

And then if you look over a longer term period, the trailing three year, trailing five years, EAFE has done better than the benchmark.

If you turn to page 34, this is the highlight on emerging markets, so you just had the first active manager return event in the quarter. So, just a

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little bit ahead of the benchmark of the quarter and then the fiscal year to date again a little bit ahead.

And now I'll turn it back to Martin.

MR. GANTZ: Turn to page 39, to see a summary chart of where the assets were invested in fixed income. The 30 percent of the fund and one in fixed income was $13.2 billion, and the largest part of that was Core+5.

The next page shows the breakdown of the Core+5 and more than half of the total fixed income is in the investment grade Core+5 program or underweight, so should be about two-thirds. The good news is that we were underweight. If you look on the under-overweight columns, Treasuries sectors or underweight overweight mortgages, that was a good decision, because Treasuries during the risk on period, Treasuries underperformed.

The really good news is in the -- column, of the 14 managers that we have, 13 outperformed during the quarter regardless of negative returns and you saw the Treasury sector. So, managers did well and our overweight and underweights is also valued.

Putting that all together on page 41, we'll have equity returns for the quarter. You can see the benchmark with 38 basis points, so we beat that in terms of 1.05 percent.

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I also want to draw your attention to fiscal year to date '12, the one year number, 12-month number, supposed to the three-year number. Those are relatively strong, fiscal year to date 6.5 just behind the 6.56 of the benchmark; and one year of 9 percent and three years is actually 9 percent. And the three-year number is way ahead of the benchmark by 100 basis points, and one year is behind by 23 basis points.

But also on the bottom chart, I tend to point out the volatility that we're earning, just 9 percent returns, three years with -- if you look at the bottom, we have 3 percent volatility. So, we've been earning it slow and steady, which we were going up.

That 3 percent number is below the chart numbers. That's because the Treasury market had been in the range. In the past quarter, as you know, it's broken out of that range, so the volatility, while treasuries had gone up, the volatility would have gone up a bit. But historically, it is within the 4 or 5 percent range, obviously 39 percent on that volatility.

The next page is TIPS, and you will see the same thing on volatility for the year, driven by last year and now in the 45 percent range and normally would be about 8 percent. For the quarter, the return was positively 80 basis points from these Treasury bonds. I

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think 6 basis points behind, and the fiscal year to date one year number was fairly strong on an absolute basis, fiscal year to date.

THE SPEAKER: Speak up, please.

MR. GANTZ: For the 12-month period, the one year period returning 12.3 percent. Again these are Treasuries and you may have a lot of duration so as rates have gone down. TIPS you think of inflation, it hadn't been 12 percent inflation as measured by the indexes, but it's because of the duration of the index that helped the return.

But also the longer term numbers since inception of the start program in 2005 has been in the 7 to 8 percent range. And the results have been close to the benchmark.

The next page shows high yield, enhanced yield. This is about 6 percent of the total fund. The policy, as you know, is 4 percent. There are sort of parking places that take those 6 percent. And while we were behind the benchmark, that's shown in yellow, by 32 basis points, return was positive at 4.22 percent. And that brought the fiscal year and the one year number to a much stronger positive number, fives, although behind the benchmark, and the three-year number was very strong at 1753. Again that is a rolling off, the bad quarter

0013

of 2008.

But nevertheless when you look at the five-year number, it's 7 -- nearly seven and a half percent, 7.49 percent and that includes the bad time. And then also over 150 basis points ahead. I'll also note that the returns on the bottom have been with volatility less than that of the benchmark.

The convertible bonds on the next page, and all the returns obviously are correlated highly to equity returns which is more higher level. They are behind the benchmark, and we'll be talking a little bit more about that in executive session. The returns for the quarter were 8.07 percent versus the benchmark of 9.86 percent. You will see for the fiscal year to date that 12-month up to a positive number, actually a lower negative number near at the line, but the benchmark was slightly positive.

For the three-year number, the absolute basis -- the absolute return of 15.63 is stronger again behind the benchmark, again we'll talk about that a little bit more in executive session.

Opportunistic fixed income, here was a bit of crossroads. Some of the older funds are running off, so PIMCO DISCO, the quarter ending March was the end of the fund. We will have a full report for you for next

0014

month. The return for the quarter was 6.4 percent. We all have a couple of Avenue funds that are rolling off. And as you know, we have some strategic relationships that just started. So, some are rolling off and some are rolling on.

But when you look at the three-year number of 1964 versus 10 percent annual benchmark, obviously again, value adds to that; but we're behind the high yield plus 3 percent of 27.2 -- we are very happy with the 19 percent from the generated.

And I will turn it over, unless you have any questions, to Kathy.

MS. EMERY: I actually have a question, Martin. So, I'm looking at the really strong returns to the three years from fixed income on page 41, the terrific managers are really doing well for us. You said earlier with regard to page 15, the three-year return attribution that an underweight to Core+5 as well as cash returns, it seems we gave back whatever alpha managers were providing I guess --

I'm trying to understand. Is there a rebalancing range too wide, so giving us too much opportunity for underperformance? And what was going on with the City?

MR. GANTZ: In the beginning of the period

0015

we were overweight. And then as time, as the world changed in 2009 and 2010, we became underweight. So the three-year numbers are a combination of time, it's not just one rebalancing range.

MS. EMERY: Okay. But is there one rebalancing range?

MR. GANTZ: For the most period, I noticed that it was part of the period we were slightly under, but during the period of 2008 and 2009, it's actually over. For short periods they were not, and then we were, just like we are doing now.

MS. EMERY: My question is, was the rebalancing range too high and giving too much volatility there? And are we comfortable? Where is it today?

MR. GANTZ: I think we are very comfortable. I think it served well in 2008 and 2009 to do that (unclear) market mostly, and then secondly. And also reality is -- we don't want to be having a narrow range and then pause transactions just within the range. So, I believe the ranges that we set up, Robin, which is about 4 or 5 percent for Core+5. I think it's about right.

MS. PELISH: Yes.

MS. EMERY: Thanks.

0016

MR. SCHLOSS: Are we done with fixed income, Martin?

MR. GANTZ: I'm done. Kathy, go ahead.

MS. MARTINO: ETI. Good morning.

Although you outperformed the benchmark, the fiscal year to date and the portfolio outperform for all the other periods. Now, I want you to turn to the big book, I'll pick one in highlight, that page 7.

It shows where your investments are in the five boroughs in New York City. And I just want to highlight the last quarter in the multiple family, the public private apartment rehabilitation program. You invested over $7.5 million for 288 units. We pushed over the 8,000 mark in units that you financed since the program began in the early 90s.

So, any questions?

I'll turn it over to Yvonne.

MS. NELSON: Great. We are going to review the highlights of the real estate portfolio, 4th quarter 2011. And we are going to stay in the large book for -- and also going to turn to page -- the equal monthlies, which we also have that book notes.

(Indicating.)

So, I will dive into it. So, the market value for the portfolio on page 16 of the big book, the

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market value of the portfolio and hedge fund is $785 million. We had unfunded commitments for $415 million, and so our exposure real estate as of 2011 was $1.2 billion.

For the 4th quarter, we have a huge strong return of -- the performance for the quarter was 6.1 percent for the portfolio. The Odyssey benchmark came in at 2.7. This is all after fees and outperformance of 300 basis points for the quarter.

We talked about the real estate recovery and how it's been gradual. And sometimes, it has lost momentum, probably consistent with some of the terms that you have seen domestically and in the non-U.S. equity market. However, there is still a flight to quality in real estate; and in terms of what people are buying they are buying core real estate. They go into the prime market, the 20.7, the gateway market. And they are looking for property that gives them stable income returns. And they're looking for the properties with long term leases, with credit tenants.

And because everyone is more less chasing the same things, the prices are rising. You know that real estate values had fallen during the crisis as much as 40 percent. But in this particular sector, across stabilized properties, particularly markets like New

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York and DC and San Francisco, there is a high demand for that.

Alternatively, in terms of where folks can get yield, we do have managers, particularly the opportunistic managers, that are getting yield just by buying broken deals. These are the deals that you have -- you have to have this skill set to be able to kind of take a building from 40 percent leased to 90 percent leased. So, those are the things that your opportunistic managers are doing.

Down at the bottom, there is a depiction of how the portfolio has performed both in the near term and over extended periods. And as you can see, we talked about the over performance for the quarter, the fourth quarter. Also 530 basis points of outperformance for the year. And then also we -- or exceeded the benchmark over extended periods, so that's a really good sign of consistent good performance.

Now just moving on to page 18, we'll talk a little bit about the portfolio and REITS components. So, the Teachers' portfolio now has 6 percent allocation based on our new asset allocation. So, we have about 2 percent of that perfectly in the ground. We are at the halfway mark at 3 percent in terms of what you have committed.

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We talked about how we have a total exposure of $1.2 billion in real estate. Right now, that's about 38 percent in terms of our core strategy and 62 percent of non-core strategy. And the non-core strategy, as a reminder, also includes activity from our emerging managers.

So, in terms of the level of activity, level of activity in terms of investments from both the core and the non-core managers, have certainly picked up since the beginning of 2010 and 2011.

And so, if we can go to the other book on page 57, which is actually the last page -- so, if you go to the last page, we can take a look at the cash flow summary, which depicts cash flow going back and forth between the system and the managers.

So, if you are all on page 37, the three on the left side, the activity is kind of muted just in terms of what the key is. So, the light blue bars are the distributions and that's the money coming in from the managers. And the dark blue bars are the contributions being made to the systems, and the light green line is just the net cash flow between two of them.

And so, I just wanted to focus on the more recent months that are always to the right. You will

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see that that blue bar is always down to the $50 million mark. And I'm kind of wondering what is going on. The managers are doing what they are supposed to do, which is putting your money to work. There is about nine capital calls for the month of April 2010, aggregating to about $50 million.

And I'd say the largest capital call was $35 million, and that represents the final drawdown by UBS Trumbull, which was -- it's a core fund. We enlarged our position in that core fund and they have been able to draw down all of our commitments, so that's what that sharp blue line is.

And just returning back to the large book, just want to talk about some investment activity subsequent to the quarter. You know that we brought recommendations and you all have commitments to Almanac for $135 million. That that transaction has closed. Similarly, just last month, we brought you a recommendation which was Brookfield, at $125 million. That deal is also closed. So, plenty of good work here.

Lastly on page 20, we show the portfolio on how it's kind of broken out by property type and geography. The only thing I would note on this page is that the geographic diversification shows that we have non-U.S. equity exposure of about 4.2 percent. And

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later on, in the public agenda, we will be hearing a little bit more about European markets real estate.

Thank you.

CHAIRPERSON AARONSON: Thank you.

MR. SCHLOSS: Thanks, Yvonne.

CHAIRPERSON AARONSON: Does anybody have any questions for Yvonne?

MS. NELSON: Thank you.

MR. SCHLOSS: Private equity later.

MS. CALDAS: So, I'm going to go through a couple of highlights from the private equity quarterly report, on page 35 of your booklet.

So, once again, you will see that portfolio is trending, luckily in the right direction. If you look at the table portfolio summary, you will see that the since inception IRR has actually increased in the last quarter, which is a positive trend by 16 basis points.

And if you look against the benchmark on page 38, you will see that since inception IRR -- when you look again at benchmark, it's outperforming the venture economic pool, but when you look at against the top quartile and the Russell 3000 plus 500 basis points, it's actually underperforming; underperforming the Russell 3000, which is at 9.54 percent and your IRR is

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8.37 percent.

And again, we will be addressing this with the tactical plan and to see what a more appropriate public market benchmark is for Teachers. That's something to be discussed in the future.

If you look at another highlight, I want to bring up to you in the portfolio summary is the distribution, again on page 35. The distribution is the key component here, because it shows what you're getting back. So, if you look at the end of the quarter you will see that $1.3 billion back in distribution, about half the capital that you put in. And it is up by $200 million from my previous quarter. So that is a positive.

And if you want to also see visually, which I think is pretty graphic, in your mind, that way to look at page 45, which is the cash flow events of casual drivers. And it shows to you on a quarter by quarter basis. The cash flow on the very top chart, the darker ones, are actually the capital that you put in. So, lighter blue at the bottom is actually the distributions that come back to you, and you will see that nice long bar chart for the fourth quarter, a $200 million increase.

It's also worth pointing out that would be

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end of the year, you had positive cash flow where the distributions that actually outpaced the contributions by $15.4 million. So again, positive trend moving in the right direction.

The other thing I want to point out are the commitments. Now, if you turn to page 36, the very next page over, it tells you last year the theme of our commitments that we are going to be doing for bigger investments into fewer fund investments, fewer actual deals; I mean, deals that we are looking at or top quartile funds, funds that were outperforming peers and outperforming the benchmarks.

So, if you look at the table of the year to date commitments for 2011, you will see of all the new commitments that we've made, only two of them are re-ups, just what we represented 23 percent of the committed capital of a total of $634 million.

So, those two re-ups were... five, and at a 4. And a new commitments to, new relationships for ETT, 7, which is more of a Nordic European strategy, ET Capital Partners 9, which is European, Western European. And Axa Secondary Fund 5, Green Equity Investors, a mid market U.S. fund, and American Securities 7.

So, the new investments, great performers, and we are excited to have them in the portfolio.

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And if you look subsequent to the quarter close, after the fourth quarter closed, we closed two more deals, re-ups, which is on page 37. Corporate finance, a little bit of the finance distressed strategy as well, as corporate... for growth equity. That's a total of 289 commitments.

Now, if you want to see how the performance has been -- the strategy performance has been working -- if you look at page 41, you will see performance by investment strategy. A couple things worth pointing out.

For one, you will see you have two that are underperforming. If you look at co-investments that is negative 2.11 percent followed by venture capital at 1.47, the two bottom performers.

One thing worth pointing out in venture capital is that we -- as you recall, you said that you were no longer looking at doing venture capital investments, and instead we will be focusing more on growth equity. We saw better performance there. So, it is actually right there in your chart.

If you look at the growth equity, they actually are your top performers in term of strategy, the quarter at 20 percent IRR, and actually that's led by Vista. So, again, this is one of our re-ups, so it's

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an appropriate well deserved re-up.

And then the next strategy that did well to you, special situations. And turn around, it came in at 11 -- I'm sorry, 17.5 percent. And that was led by Aries, and yet another re-up that we did, well deserved re-up.

And then the other -- right behind the special situation and turn around was corporate finance, large buyout, which came in at 17.3 percent IRR, and that was really led by Apollo 5.

So, all trending in the right direction. We will address venture capital and have addressed that with co-investment, so it's also a function of the earlier funds -- funds that are bit young and still had time to mature. So in time we'll probably see that get better.

The other thing I want to point out is the secondary, which we're very happy about, on page 37. We managed to sell five partnerships, ending by, all of them closed by the end March and one in early April. And the total is up to $91 million that came back to Teachers straight. And then the average just count was about 6.6 percent on the AMD. So, it was a very positive trend.

It was a very positive trend for Teachers,

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and in fact that $91 million is addressed and reflected in your distributions. So, it was very positive.

So, the last thing I want to wrap up was -- if you look back at a full circle page 35 to where I started. You will see again that Teachers has total commitments of $3.8 billion across 126 partnerships, representing 87 GP relationships. Your market value was about $2 billion. And again, your IRR since inception for the quarter is 8.37 percent, and the total value multiple is 1.2.

And in terms of your policy allocation -- again, your target is 6 percent and as of December 31st, Teachers up 5 percent.

So, that wraps up my highlights.

Does anyone have any questions?

CHAIRPERSON AARONSON: Thank you.

MR. SCHLOSS: Thanks. That wraps up a good quarter. Now we'll get to the less good quarter.

MS. PELISH: Can I just ask a question? The discount 6.6 percent in the secondary sales is very, very small -- shockingly small. Is that a sign of a secondary market overheating or -- from the perspective, or -- I'm sure it's the superior negotiations that --

(Laughter.)

MR. SCHLOSS: There was some things that we

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didn't sell, which is -- so we sort of sold what we got the best prices on. So, if there's an X number of partnerships out and the X was 10 or 11 and we sold roughly half, trying to tell the other five funds that had double digit losses. So we decided not to sell, to mature a little. So, we sort took the cream off what we could sell. And that partly contributed to why that discount so little.

Plus we had the funds that we sold, the big funds that are liquid. And there are, as you know, secondary funds that raised a lot of money, so they like those names. Actually, in the second tranche, we are finding that there are other funds that we have that are too big a piece of the fund and they are terrible, some of them. And again, the better more liquid the names, we get the great pricing, the same kind of thing, but the things that we probably have are too a big piece of, so we'll hope for --

MS. PELISH: Thanks.

MR. SCHLOSS: April. April is a transition month. The transition is kind of the wrong way. So, these are April numbers. If we quickly go through the numbers, I'll set up what was going on. The April numbers are overwhelmed by the May numbers, which you don't have.

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So, what they have really done is, again we just finished March. March was a good month. March was a good quarter and January and February, and March were good. April is really a transition. And then May.

What happening is, we go all the way back again to December. In December, the ECB had its program, LTRO, which was three-year loans to bail out the banks. The tranches, it was the big mandate. The problem is, the mandate came off. It was a three-year Band-Aid.

It looks like the Band-Aid lasted for about four months, through April. And then May, Spain became a problem. There were elections in France that changed the government and there are currently pending elections in Greece.

So, the French election is probably the biggest election that started to change things, and that was in April. The French election they got rid of Sarkozy and put in Hollande and they switched from really Merkl's partner to austerity to new partner which is showing you a game, who was more than growth. So, he went from -- kind of have a plan. We are executing the plan and now we've got a new player which is a different plan. That was kind of April.

And at the same time you had round one of

0029

Greek elections. You may recall also end of December, the Greeks agreed to a plan, and lots of harangue, but they basically agreed to a deal of severe austerity, Round one of a two part elections saw a rise of candidates who want to basically walk away from the agreement and go to -- we don't like austerity. You know, austerity is very unpopular.

So, the voters voted, which would you prefer, everyone says we'd rather have growth, especially after what we've seen for a little while and how bad austerity is. So, those two things happened in April and May. And the final Greek vote would be in this month, I think, on the 16th.

So, the combination of those things made everybody not like Europe again, and you don't like Europe when everyone is very antsy, you don't like -- so, for instance, that we get through April. And in May -- April is sort of flat. Let's just say April was no runs, no hits, no errors.

In May, EAFE was down 11 percent. Emerging market equity is down 11 perfect. U.S. stock market is down 6 percent. And there's a flight to quality. So, the U.S. Treasury, which was sitting at a ridiculous low rate of 1.8 percent, and the gap is down 4 to 5 percent, and the prices yet, the bottom of prices.

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So, that sort of wipes us out. That was in May, a very, very bad month. And again, the numbers we are going to walk through in April, I guess, no runs, no hits, no errors, April.

Now, we are in June. We figured out that perhaps, the end is really near, so yes, it's like a great day, and today we will have a great day that has lots of volatility. So we're back to where it was last fall a little bit, lots of volatility. But the portfolio was sort of set for better times, better times, being in January, February or March. So we've done a couple of things in May which I'll talk to you about.

CHAIRPERSON AARONSON: Jaime Smarr has entered the meeting.

MR. SMARR: Good morning.

MR. SCHLOSS: And again, at the same time, the last factor that was entered into things is probably in May, because the first quarter announcements for U.S. GDP -- remember, U.S. GDP was sort of up 2 or 2.5 percent growth, and all of a sudden the report comes in at 1.9. And job creation was slow, less than 100,000 people. The unemployment rate in April at 8.2. All this is not good, right?

You are trying to go off the bottom and you

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kind of keep getting smacked down. And people are very antsy, because everybody remembers 2008 and 2009. So, the money is much, much more fluid than it ever was. So again, the long term investors try not to overreact, on the one hand. On the other hand, they watch it all go buy.

So, the most relevant charts I'd tell you is, skipping the economy, but I would point out there is one chart that we talked about before which I don't like actually, it was on page 10. Page 10 is the only forward looking chart that we have. This is architectural billings.

Again, what's missing in the U.S. economy is construction. And the first indicator of construction is permits and architectural billings. So, if we look back on this chart, page 10, over 50 means we're expanding; under 50 means we're contracting. So it flattened down all during the fall when Europe was having these problems. And now it's gone below 50.

But now, we are back to -- but again, you cancel your architect before you start billing slowly. But this is telling you corporate America is getting worried again. And again, worried about what's going on in Europe, and worried about the U.S. elections. And we have that kind on the horizon, which is the November

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event.

You have an increase dialog in the markets about -- it's about -- it's a fiscal blip which is really about debt billing and the expiration of tax credits, both of which we recall last year. So there's all this brinksmanship going on in Congress which also didn't help the markets.

So, the theory was -- the realty is going to go, and we just had a change in France, we have a change going on in Greece; and we have Spain, Spanish banks being a problem. Let's presume that in the near term the Europeans figure out how to muddle forward by fixing something. Then you get right into the U.S. elections, and whoever will be president and the Congress on the Bush tax cuts. All very, very noisy, not good probably, but all kind of muddled.

So, we're going to have months that go up and down, much, much more of what we had with investors but again, architectural billings. The U.S. industry is -- are anxious, not a good sign.

Then if we get to markets. If you look at something, flip to page 20, you will get the dollar euro rate and you will see that basically -- April, May, people panic and -- panic is the wrong word. People kind of voted with their feet, which is, "We are tired

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of all the volatility in euro, we are out." The euro went from 132 to 124, which is actually very, very big move from technical barriers, which leads you to 22, which is the VIX.

And things calm down after getting not calm again. Which leads you very quickly to page 25, which is ten-year Treasury, which is -- let's get out of here, so buying Treasuries, so it broke the 145 which is ten-year Treasury has never been at. I'd love to borrow at 1.5 percent.

(Laughter.)

It gets you to page 26, which is, people are worried, so spreads widen.

That put you a little over to page 31, which is, "I'm afraid, I want to get out of stocks." So, all this get out of stocks. If you look at the dotted lines on the left, the second series of dotted lines that end in 27, that's April 27.

So I'm going to go through results in the Aprils, which are pretty nice, pretty flat. But I'm going to end with a very bad story on -- for a projection as to what happened in May, to our portfolio.

Where we last left our story, on page 33; for the month of April, we made money. And you we've got all the way back to $44.5 billion, which is probably

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the highest point for the year.

If you look at where we were positioned on page 30 -- the high point for the year... the results on pages 42, that break even, that's what we call it, April, three months return, 4 percent, fiscal year to date 3.6 percent.

And then coming into this -- coming out of April on page 37, again, I had this leading into equities, U.S. Equities, EAFE, we're building our emerging markets position over the month for underweight fixed income, we had some cash. And the reason is actually that it is so large in the equities, the market appreciation.

So, the plan was to spring through a little bit. So, in May, early May, we sold off 1 percent, 1.5 percent of EAFE, we added a half percent to emerging market equity. We raised cash, and that was 1.5 percent cash. The fund is about 2 percent of fixed income, EMOM, that we had previously approved.

So, where we are today, end of May -- we lost about 6 percent in May, when we add it up together. So, if you look at the April numbers, numbers which you write down, which is more current than what you have got, the total equity went from 70 percent to about 67 percent; and fixed income was 30 to 33 percent.

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So, we're back in policy. Of that U.S. Equity, down sort of 38 percent, and EAFE down about little less than 11 percent. We finally finished the documents for opportunistic fixed income, so they are drawing down money in June, which is perfect timing for them. And that also -- that was funded out of U.S. equities. So we will keep taking money out of equity into fixed income investments. Again, the opportunistic fixed income, the higher returns that should work out well.

There's a couple things that we will talk about in executive session, which are also fixed income things that, again, get funded out of equity. So I would think that is the end of June. We will be in line now to continue to get through further in line with the asset allocation.

So, again, if I took the minus 6 percent that we had in April and add that to plus 3.5, because they were down about 2.5 for the fiscal year, we made good money yesterday and we made a good money today. This minute --

MS. MARCH: One minute, June 30.

MR. SCHLOSS: Exactly. So, I can't tell you what the end of the month is. But the optimist in me thinks that the Europeans are going to do something

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that's positive, not stupid, positive between now and the end of the month. The markets will go up, and end of the year in positive territory. That's what this side says. This side is very impressive.

(Indicating.)

They are not going to go that fast and going to hang into July. They are going to have a loss year and they are not going to work so well. I believe the optimist, but now I have to believe.

(Laughter.)

So, I think June will work out, but if it doesn't work out I'll be back in July. So, again, the actual limit is we are lots of liquidities but we are pretty set up all right, and we've got some cash. And the best thing is, the opportunistic fixed income guys that we talked about for so long, are finally getting documented and closed. And that's good return money and the markets are in turmoil now, so that will be good and will come out of the equities, so it's all direction, correct?

Just a bad month. And you know, these periods inside -- each year is bad -- so that's sort of the month of April. I'll try to tell you the fiscal year ends as soon as possible, in July, after the June results come. And you will see that again we are back

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inside the policy ranges and well positioned as we can be for what's going on. That's April.

Questions on April? May?

So, one of the things that we talked about is Brookfield. And last month, the month before, is a global real estate fund to make investments which will be making investments in Europe. And we are also seeing some other real estate related investments in Europe and committed to some terrific European private equity funds.

So, we've got capital going on in Europe. So it's going to be useful to bring Townsend and European investors, as well as European managers and we'll talk about what's going on in real estate.

So, Yvonne will get our speakers, and we'll have a discussion of what's going on in real estate, for information purposes, the capital there with regards to our fixed income manager investments as well.

So, I would tell you within the next year or two we'll have several percent or more assets in Europe, more real estate coming from Europe. So, they are on their way.

(The people entered the room.)

MR. SCHLOSS: Introduce yourselves. The stenographer is down there and the trustees are over

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here.

MR. REYLANDER: Why don't I introduce myself first. My name is Jim Reylander. I'm a managing director with European Investors. We are an investment firm focusing on real estate investment and securities worldwide. And we have a very limited exposure to these directors.

We've been running funds in this area since the late 90s, actually. I spent the early part of my career in banking, but also working in the real estate sector on development, on investment, throughout Europe actually, direct investments in my whole career; and then gravitated to real estate securities back in the 90s.

With that, let me start with a brief overview on the first page of what's happening in Europe. And my objective here is to give you our impressions of Europe today, what we think of that how we are investing, we are investing again only through a couple of real estate companies, and nothing private. We don't do any of that. Just sort of equity, just to the stock markets.

And as you can see from this chart -- and I will just -- there are a lot of numbers there -- let me just summarize a couple of things. I think from a big

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picture perspective, the press in Europe has s controlling influence there. What's actually happening on the ground is not really quite as severe as it seems.

I just came back from ten days of traveling throughout Europe, and I can tell you certainly in Germany, the bars are full, in Sweden as well, the restaurants. Strike that. The restaurants.

(Laughter.)

And the other thing in Germany, which is because I know Germany, they don't like to spend money but actually we see them out spending money. So, that's a big thing to retail sales doing well in Germany. And I think that market is particularly healthy as are the north countries.

And the other area that may surprise you is Northern Italy. Northern Italy's economy is very strong, not as Southern Germany, so there is that connection there, an industrial connection, but you won't read about that because you just hear about all the other stuff in Italy.

Another thing that is interesting to know -- and feel this is important to mention, because it is underpins why we don't think there is going to be a catastrophic demise in the euro zone. Italy has today the greatest percentage of household net worth GDP of

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virtually anywhere in the world and the highest world savings rate. And not all of that is declared but --

(Laughter.)

-- but right now they are doing Ferrari counts in Regata, Switzerland which is on the border of Italy, and finding out that someone has a half million dollar car and makes $20,000 a year, so the numbers don't quite jibe. So that's been some issues. It's not all clean.

But just in general, the market is a little better than people would think. One thing, just so you know, in a lot of European markets, when it comes to real estate mortgage debt in particular, in Italy, the deal is if you default on your mortgage you can't have a bank account for the next five years. So, people really don't -- they don't borrow money unless they absolutely have to, and they know this.

So, you know, this is fundamentally good things going on in that. The market, again doesn't really get depressed.

So, our fundamental view is that we think Greece, like Lehman Brothers, is not easily -- as our British friends would say. And, you know, you can't just say let's just hide it off and everybody will be fine. I think it will create withdrawals from banks on

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the area and some of hysteria and lot of scary things could happen that we just don't think it will happen.

Because we do think -- when I was in Germany, I'm getting a clear sense from Germans, who now, after coming out of the abyss, you remember eight years ago, they were the sick dog of Europe, sick old man in Europe, they were headed for certain long term collapse. Now they are strong guys and they are pounding their chest, but they recognize that the buyers of goods -- some countries and rest of the world.

So, I think they are moving in the direction of health, and again it's quite a bit more positive.

Now, the next page, page 2, we talk a little more about the office market conditions. Let me give you a couple of big pictures here. There is huge demand for high quality real estate throughout Europe and mainly for the prime cities -- I mean, prime real state.

So, in my view, prime is overbought, meaning too much demand for two few properties. Right now in London, the estimates are that there are 5 billion pounds of demand for 1 billion pounds of real estate that's on the market. And a 5 to 1 ratio is pretty strong, but they all want the same thing.

So, you can see in the vacancy rates picture with the cap, the prime yields on the right, the middle

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there, it's really close to or at where they were at the peak.

Now, these investment investors who are buying the processes are coming in from Malaysia, China, Taiwan, Korea. Those guys never were there before. We've got of course green flight capital, no surprise there, Middle East capital, and capital all over the world. And it's converging. Primarily London, but also in Paris in the major cities.

And I think that's also a very significant development. There's a lot of liquidity in the markets. Again, people worried in the financial crisis. In 2008, we had no transactions, no liquidity, no money moving out. It is really quite the opposite. So, we have a surfeit of capital chasing the best locations.

So, that's good news. When you get outside the main cities, it's a very tough environment and things are kind of -- not falling off the cliff, but it is one area we're much more concerned about. But we do see investors moving further out on the risk curve than they have in the past, and that's just beginning to show up.

Now, a couple of key things that we don't see. Even though you have verbal vacancy rates, the West End of London today is prime real estate, it's

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point .8 percent, and there's really nothing close. The key story is longer term, if you look out one to two years. There is nothing going to be delivered to the market because no bank wants to finance anything.

Banks are running from this -- and I will tell you, just an anecdote, one of my good friends runs one of the larger private equity firms in Europe. And he was trying to fill out a new syndication loan, a $500 million bank had $100 million. And one of the German banks came in and said, "I can't do any more real estate." So he had to kill it.

And we seeing this all over. So we don't see supply coming through, and you already have pretty low vacancy rates. And so -- for me, this is like the best thing we can ever have. We are buying property companies at 20 percent below, and I think we're excited about that. But buying equity in prime real estate, core real state strategy, to my mind in Europe, today, is an expensive strategy. I'm not so sure I'm that excited about it.

And as I pointed out in my notes here, tenants in the last -- really the last three or four years, have kind of slowed down, nervous about with the markets. The deals aren't getting done quite as fast as they were in the first part here.

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So, that's the big picture view of the market. And we got some other -- and as you can see that point on the far right, it's just supply, pretty minimal. And in fact, anybody wanting to do development -- for example, you might have heard of Tishman Spyer, Jerry Spyer. They're building spec developments in Frankfort that are related to the markets (unclear), 14 percent vacancy. Jerry's found a niche for himself. But he is doing that spec building 100 percent equity, not even going for a construction loan. Because he doesn't even want to make the phone call to a bank, it just wont' get returned.

That's pretty interesting for one of the better quality developers that we know anywhere in the world.

MR. SMARR: Where is that building?

MR. REYLANDER: In Frankfort. They haven't announced it yet. So, it's not public record.

(Laughter.)

In any event, yeah, it is Frankfort. Meaning, the market I think is right near -- and it is not very far from these.

MR. KATZ: The prime rent per square foot, is that an indication?

MR. REYLANDER: Yes. And that was based

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on -- if we look at -- these are numbers -- these are the actual rates or prime-prime. So, like in Paris today, let's look over on slide 2. London City, I think that's where the market's capped out, because there's supply coming through, i think there is financial services companies that are slowing down. So I think the deal market was supposed to get up to 70 pounds. That's not going to happen. I think we are stabilizing there.

West End, that 95 pound number is really prime-prime. You can do deals at 50s right now but that's -- those, if we go back few years, those are 35 pounds so this has a been pretty good run. They are now in Paris again. That is prime-prime. Deals are being done in London at 400 to 500 euros per square meter. This is more the primary neighborhoods -- sectors. Good enough. And this is like the best location. So, don't take too much out of that.

Key thing, first, that I can tell you -- and also Stockholm -- Stockholm, those are good numbers for the average market, as are Frankfort. And you can see from this chart, too, by the way, that continental Europe is pretty cheap, relative to London, and that's an issue we have with London. One of my big worries about London is that the housing costs are very high,

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rents have gotten up to a pretty high level, and the demand is kind of overstimulated by so much capital and foreigners buying into the markets.

So, that's something that we, from the equity perspective, we worry about. From a debt perspective that would be not as much of a concern. Yes. These are more prime allocations. And when you get into averages, it incorporates a lot of other real estate.

Now, page 3 is just a quick note, and I know Nick will cover to more of financing side of things. It's just what we see. Investing in property companies, they feel they're in the driver seat because it is very hard to get debt anywhere else in public companies. And you get public debt, proprietary debt, they have access to capital.

But the rest of the world that private equity firms -- the average borrower out there, construction company developer, which is really expensive. And just to give you a rough idea, a bank syndication may cost two to three times on a spread basis what public bonds cost in terms of spread.

So, it is almost prohibitively expensive to borrow from the banks these days. And the issue has been for the people in the industry, we got lots of

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calls on "How do I buy debt in this market?" It is hard to get supply. That's the most difficult thing. The issue for the banks is they are doing a lot of forbearance now, working with the borrowers, and the deals aren't just falling out of the trees, which I think most people expect it.

So, getting access to deal flow is really challenge. Now, in Europe running into insurance companies, hedge fund private equity funds, all trying to step into the breach the banks are in. And the problem for many of those are only getting access to secondary quality assets. And as I mentioned to you, that out of town stuff is a little bit scary.

You have a 20 percent vacancy, and I know real estate developers always say, "No problem, I'll fill it up." You may not fill it up. And we certainly see that anywhere outside the London market. So, that's really a key issue.

Now, we do also have some pressure from deals coming out of funds like the German open end funds, but a lot of those deals are in the Benolux countries. If you know anything about those markets, they get overbuilt regularly. I refer to the Netherlands as one large suburban office market. There is no center in the Netherlands. There are lot of

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centers and they all stink for investors.

(Laughter.)

It costs -- these 12 numbers, if I used U.S dollars, it costs about 400 bucks a foot to build, all in project cost. And if you're really lucky you do $20 (unclear). And that's consistent, covers that market for 20 plus years. So, that's a challenge.

But a lot of their deals -- and the reason they did the deals is, they open the fund, so they promise big dividend deals to their investors. The Dutch high risk real estate had high yields, so they bought it in bulk. And now they kind of have (unclear).

So, we do see that happening as a big number of about $30 billion in real estate has to be restructured. But it won't hit the market that fast, or may not, because under German law you have five years to wind this down. Now, what I suggest to these guys is, don't pay any fees during that five-year period, it will wind down faster, but nobody --

We don't expect to see that.

And then on slide 4, I really give you more of picture of what exactly is happening. We covered a bit of it earlier on. Believe it or not, notwithstanding what's happening in Greece, a lot of capital is going to Europe now. The rents and the

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values, with the exception of London, are about 30 to 40 percent below peak.

So, if we compare that to the U.S. market, the U.S. market, U.S. market is traded pretty close to peak, not very far away. This is a cheap market, you are buying below cost bricks and mortar, and all these markets, even those low cap rates are still attractive. And when we see financing wherever it gets done, it is very conservative.

So that's also -- the whole world, in Europe anyway, is going from a wild and crazy teenager phase to a mature adult phase. It is some kind of overnight. And this financial crisis has really driven that point home.

So we -- and the lack of development we like a lot is throughout this market. And if we weren't for the Greek issues and the euro issues, which are big, you will see a lot more investment, more activity. The key markets are where capital is going. It's clearly the U.K. or Paris.

Germany is different. We've got Frankfort, which has got a 14 percent vacancy rate, that's always overbuilt. The more challenging, Munich is really strong, hard to get development. And when you look at various markets in Europe, one thing that I should point

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out too, is there is very high barriers in development. And France, it's 15 years before development's done, start to finish. It's one of the reasons why we think Simon Properties, who bought it, because they would take them 20 more years, even though they don't want to wait that long (unclear).

So, and as a result of that, though, we have very good supply and demand. We like retail for that reason, because you can control the market. But throughout the markets, we think things are healthy from the real estate perspective and not so healthy from a capital markets perspective. And for us that disconnect is actually good news.

And I think that's our message. Things are better than they seem but yet you could be nervous about the global market environment and trying to slow down -- we are trying to, cutting rates and really recognizing that they need to hit (unclear).

MS. ROMAIN: So, based on what you said, you don't see a contracting euro zone or --

MR. REYLANDER: We had assumed that the euro zone will be in a slow down recession -- whatever you want to call it -- the next few years.

And now, that's difficult to really -- I think it's all event driven here, because it is finance.

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If Greece is melted in, everybody is going to pay the price and it will slow things down a bit. But in France, for example, we've an automatic adjustment. And this year the number is 6.8 percent.

Now, I think that can be big to negotiate that away, but that's (unclear). So, there will be some groundwork because some there are under market events, so it won't be all completely flat. But we do expect things are going to be very slow, and torturously slow, but you never know if this very big lack of supply hits and everybody wakes up and says, "Wait a minute, I can charge more rent." Never do that. But it's a good sign and it's there, I think, the next three or five years.

MR. COOPER: I'm Nick Cooper, a principal of Townsend Group. As you can probably tell by my accent, I am a Brit. So, don't hold that too much against me. I think I'm probably here to give you very local insight --

MS. ROMAIN: You can enjoy the jubilee.

(Laughter.)

MR. COOPER: I wave the flag outside my house and they wonder what I'm doing, but anyway --

Jim's given some great points, and to be frank, we pretty much concur with a lot of it. Let me give you a few other things that I think are quite

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important to just reflect on. If you follow our presentation it is a very similar format here. So, I'm going to use page 1 of that one. You'll see we've got GDP on there. It's very similar to Jim's thoughts.

Europe is a big place. And it's by no means uniform, and there are pockets of opportunity. Germany we know is doing well on a relative basis, though even that's come down recently. Poland is an interesting standout recently, actually doing very well. Labor is relatively cheap and that helps it significantly.

So there are pockets, and I think that's important when you start to think about a real estate strategy. I don't think it's about simply buying the market. I think it's about buying or taking a very much more granular approach to the opportunity that you see.

The other thing that I look at as an investor is very much employment or unemployment, whichever way you want to look at it. And some of those numbers are pretty awful. Employment is important in the real estate perspective because it puts people in shops, it puts people in offices, it puts people in factories. So, we are always looking at where that demand is going to come from.

Now, you've got a real contrast here, because Germany has like 5.5 percent unemployment.

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Contrast that with Spain today, 24.3 percent was the number I saw. A quarter of the work force unemployed. The youth unemployment, half unemployment, unemployed. These will probably get worse before they get better. And that's probably one of the issues that in this context more currency doesn't always fit. So, look at unemployment because I think it's an important thing.

But the other thing that I think is very prominent, and Jim mentioned that I would talk about this, is always finance and debt, an issue to the banks, because there are some real issues coming through here.

We talk about things called Basel 3 which is about solvency. These are the regulatory pressures coming on the financial institutions, and particularly banks, and it will have an effect and I'll show you that in just a moment.

So, if you look at that environment against the property market, what do we see? I use the chart, that is right here in my own country, the U.K. So this is U.K. commercial property prices on page 2. And you will see exactly, to Jim's point, values that come down, and it come back up. But in overall terms that are still significantly below where they were at peak. And in many cases, as Jim says, still significantly below the cost of rebuilding.

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But there are exceptions. If you look at those yields on the left they're at the bottom chart versus the 30-year average -- and some of those peak prime yields are back, if not ahead of where they were, at prime time. And that picks up Jim's point. It's been a huge flight. Everyone is nervous.

What do you do? Go safe, so you get the best building with the best tenants, with the best locations and you can possibly do something. And you will see that going on. But what you also see going on is this international flow of money.

And I'm quite shocked by the amount of international money that there was a little survey came out about a couple months ago in terms of the city of London. More than half of the city of London is now owned by overseas investors, more than half, that's quite unusual. It's funny. Basically, you will see that. It passed in the night.

There are some other little anecdotes, and I will give you two. You would have seen yesterday that Mr. Hollande, the new president of France, just reversed one of Sarkozy's major things, which was to reduce the retirement age. Sarkozy put it up to 62, Hollande is putting it back to 60. There just might be a financial consequence of doing that.

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MR. SMARR: Do you think so?

(Laughter.)

MR. COOPER: You might know a little bit more about it than I do.

MR. SMARR: Where is Bob?

MR. COOPER: That's the one issue. The other issue is little bit of a throw away line, but I think it is sort of -- it made me smile. North Frank is one of the big London residential agents. It reported a couple weeks ago that it had seen a very significant increase on its website for London from people from France.

You should be pleased by that, seen the light. But I think there is an issue going on there, and that is Mr. Hollande has the 75 percent top rate tax. And you can see the -- and that's what you see. London is a center of international money. And the same degree is still in Paris. There's still a lot of Middle East money there. With oil at $100 a barrel. You know, these guys have money and they will put it into real estate in Paris.

But I would ask for one thought of caution. You can't buck markets forever. Unless you can bring yield down the value drives, at some point you have to connect the two together. And I agree with Jim – I

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think there is a place in the markets that are pretty weak and I think you are going to see that. And I'm just beginning to see the first early signs, perhaps a little bit of weakness coming into those funds. Now, I don't think it's going to chip out loosely but I would just caution that I do see that. And that's probably reflected at the time in the market now.

Turning to page 3, Jim again, we didn't put this presentation together. So it's good that we are actually saying some of the same things, because it's -- maybe on the same sort of page here.

I used two charts. The one on the left is a survey of unlisted property funds. And that tells you that over the next three years a very significant number of those (unclear). And I use that merely to emphasize the point that I think there's going to be more stock in the market. Because more stock in the market, supply and demand, you probably expect to see a little bit of weakness on (unclear).

I picked up exactly the same point as Jim makes on German open-ended funds. I think that they have to liquidate -- I know they have to liquidate, they've not done what they said they were going to do, which is simply when I want to get my money out, I expect to be able to get my money out. We are not

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seeing that, and that's why they're having to liquidate, and we will see assets come to the market. And I think that will then came down at some point.

But I mentioned one other big factor that I think is really important, and that's debt. And the debt scenario I think is quite dramatic. If you follow me to page 4, I say that debt is like a lubricant to the market. It's like the oil that makes the wheels run smoothly.

And when you take it away, those wheels tend to grind up a bit. And that's I think what we are seeing at the moment. Seventy-five percent of all commercial real estate debt in Europe is held by banks. As opposed to, I think, in U.S. about 55 percent commercial real estate is held by banks, big contrast.

The banks have problems. You can see this lubricant starting to filter away, and you can see the problem.

It's estimated I think something around $960 billion of commercial real estate debt is around Europe. Of that, today, $500 billion expires in the next three years. So, either that's going to be replaced, so something is going be -- something is going to happen. The problem may be an opportunity, an issue to think about.

0058

Of that debt, of that $500 billion, half of it is in Germany and the U.K. Now, as a very proud Brit and proud of my queen, et cetera, I also have to tell you, as you know, that I'm also the proud owner as a taxpayer of a couple of banks in the U.K. as well. So, we own the Royal Bank of Scotland and the other is about 40 percent of Lloyd TSB.

Just look at the U.K., 60 percent of all commercial real estate debt is held by the Royal Bank of Scotland, Lloyd TSF and Namo (phonetic), which is the Irish banks. Sixty percent of all debt is within those three places. Now, that is unsustainable and we know that it is unsustainable.

And I think the issues that the banks face are really shown for me on page 5 here. So if you follow me to page 5, I think the whole key head -- if you go back five years, most loans tend to be about five year terms. In 2007 is the peak of lending activity. So, 2012, naturally you are going to see that roll off. That's why I said a lot to come to the market.

Needless to say, bankers have very short term memories. As things look great, so lending criteria gets lost. Weak lending criteria on many of these loans.

We also have fewer banks around. People

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like Euro Hyper (phonetic) are no longer in the market. Lockstock Gen (phonetic) are no longer in the market. So, there's less places to go. That continues to point about, people are thinking about how they step into it.

I think value has bounced a little bit. It's just still overweight on that. So, many of those loans are clearly going to be problematic.

And there's one other big issue for the banks. Under Basel 3, it's a requirement to increase your regulatory cap. We'll hear all about that today if you hold a real estate loan, that's about 50 percent loan to value, you are required to add a significantly greater proportion of risk to capital. That's the real problem when you can't raise money from shareholders and there's issues to come.

Now, you can see it on the one side. Second side is, you have to understand what the loan book is, and you've just seen that in Spain. Perhaps you may not have been told the whole truth about the loans. So, bank nationalization in Spain, there'll be more of those sorts of things to come over the next period of time.

It is clear that there's going to be government pressure. But I mentioned that I'm proud owner part of the Royal Bank Scotland, at least there're doing a little bit better. They reduced their loan book

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in the last couple of years to 1.6 trillion of pounds, to a trillion. Well, it's a step in the right direction but we've still got a lot to go.

There are some serious, serious issues around here. And if I just use -- look at it from a very personal perspective. I sit, I have sat on an advisory board, a very small fund that actually buys a private net worth -- high net worth from the Middle East. The fund owns good secondary real estate. We have a loan coming to expire now. It's in Brussels, actually. We have some vacancy on the building. We had nobody, but nobody, to talk to. No one is prepared to entertain that loan. That's a problem. A serious, serious problem for the markets, and you are going to see that replicated over a period.

And I think Jim makes very valid point, that the gap between prime and secondary is going to get wider. And as a result of that, you are going to see some value in there, some opportunities as well.

My next page, page 6, I only mentioned CMBS because it talked about a little bit in the U.S. It is a much smaller mark here. Something like 15 percent of all those loans today are in special services, so in distress or in some way of -- it is going to get worse -- I'm talking about 13 percent six months ago.

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So, the problem is getting worse, it's not getting any better.

CMBS in Europe is primarily focused on Germany, U.K. It is not as easily resolved as it is here in the U.S. Unfortunately, you need 100 percent -- as you see from European politics, it is all about consensus. Europe can have a meeting to decide, we are going to have a meeting of what the agenda for the meeting is going to be about.

(Laughter.)

This is Europe. This is a community which is not politically integrated, and that's one of the issues. So, that sort of convey things, lots of the things that go on there. If you look at the opportunities, I thought I would just give you a couple of opportunities to throw out here.

This on page 7 is student accommodations. You know, I can remember back to my student days, we never lived in anything grand as this. So, this is to a modern day accomodation in central London. It is a deal being sold, actually by Blackstone, today, and the borrower can get about 53 percent debt, but he can't get any more. He needs more.

So the opportunity that came to the market very recently with the cash return something like 11

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percent. I find that kind of interesting, because I think the student accommodations is still going to hold up. I think you'll actually see more students, for the lack of labor going to college at this point in time. And mom and dad likely are still paying the bills. So, we suspect that that looks an interesting deal.

The next page, page 8, is Poland. I mentioned Poland was a good opportunity. I thought it was a good market, still holding up. But even here, German banks are very prevalent, much less so today. Again, an opportunity to see what I think is a good set of assets, good model retailing assets, in a country that's generally undershopped.

And an opportunity to see a very big inflow of cash. I sort of get attracted by that sort of numbers today, where I'm starting to see double digit numbers. And I agree completely with Jim's view that, you know, it's going to be easy to dismiss Europe with kind of hell in a handcart. I don't think that's case. I think there are opportunities, if selective about how they do it.

My final one is, I thought I had the London in here. This is quite a grand looking building, right in the middle of the city of London. This was formerly owned by Lehman before the bankruptcy. I'm trying to

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come out, the present owners got money to do any capital improvements, important point. And we're seeing an interesting opportunity. So, we're seeing pricing in certain things. It's a good building but poor lease structure; and therefore we are seeing an opportunity.

So, looked at from that big picture, I can paint a pretty negative picture. And I think it's a realistic one as well. So, honestly, the question that I know I'm going to get is, Does that mean I don't invest in Europe? Actually, I think I do. Because I think that this is probably the most interesting point that I see in 13 years that I worked --

I think that we will be pricing, the money. I think as it's been said, capital markets had real problems. Parts of the potential markets have problems. But people still need to eat, to work, to shop and they will still be there.

It is a very granular approach required, I think. And I think there will be opportunity for the savvy investor, for equity rich investors. I think it is an interesting time to make directly -- and I think I certainly would be looking at that sort of market.

I'll answer the final question, I'll preempt probably a question. The question is, does the euro survive?

0064

My view, I think we both believe it will survive; because the consequences of it not surviving are just too dramatic. The principal beneficiary of this euro as it is today is Germany, and German industry, because it does incredibly well and it's restructured its labor. It definitely benefits.

I just can't quite see why Germany would want to completely get rid of that and ultimately revert to the Deutsche mark, with the natural -- at that point in time which will make industry less competitive.

Now, for that to happen, Germany has got to do a few things. It has to step up to the plate and it doesn't want to do so. But I sense a move to soften a little bit.

THE SPEAKER: I was wondering about the U.K.

MR. COOPER: No. Love the town and always going to stay there. So, you know, during this promo, Brit perspective, a weak neighbor which is our principal export market, is the same argument (unclear) you've got to sort that out. Now, it will take at least a political move (unclear) and that's why I suspect the ECB is sending a message to politicians, and sit on the fence forever.

So, that's what I think will happen. I think Europe has some real opportunity in there, but I

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think it's a selective basis and I think you have to pick the markets.

MR. SCHLOSS: Any questions?

(The people left the room.)

(Discussion off the record.)

MS. EMERY: Is there a page missing from the report with regard to what Martin was communicating about the allocation effect? Can we get that for March?

MR. SCHLOSS: Sure.

MR. GANTZ: Yes, we can. We are working on that, tying out the numbers, we are not quite there yet. We certainly expect to have it put on the June quarterly, we were just not ready for printing for the March quarterly or not there yet right.

MR. SCHLOSS: So, Mel, that's public session.

CHAIRPERSON AARONSON: We will now turn to variable funds, public session.

MR. LYON: Good morning.

So, for the variable funds, also known as the passport funds, we are going to start with the quarterly performance report, which is distributed in a hard copy. I'm going to go through it pretty quickly, and if you have any questions, please let us know now; but also feel free to follow up either following the

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meeting or at the next meeting as well.

If you turn to tab 2 of the green bound quarterly report on page 3, it hits a couple of highlights since you reviewed this performance each month. But to reset the stage for the first quarter, we will cover any market commentary that's been addressed very well in the prior session.

But the diversified equity funds, formerly known as Variable A, were up around 12 percent. That was rounding very liberally, about halfway between the two benchmarks, the broad view and equity market was up closer to 13. And the hybrid benchmark, which reflects the mixed of asset classes was up 11.5.

And a couple of the composites that we like to look at that are the most diversifying relative to the primary closer view U.S. Equities in this fund, are the defensive strategy composite and the international equity composite.

The defensive composite was up in the 6.3 percent range for the quarter, certainly out of its benchmark. And the international composite was up around 11.5, not to different than those returns to the fund as a whole, and that was also about a half of percent ahead of its benchmark.

When you look at page 4, for instance, you

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can see that it continues to be the case that the historical returns, the volatility of the fund on the five-year basis has been observably less, not dramatically less, but observably less than that of the broad U.S. equity market.

And in particular, I want to take this opportunity to highlight one page that's been redesigned significantly, which is page 7. Page 7 used to largely look like the top right graph on page 7. And what we have tried to do is focus in and use this as an opportunity to drill a little deeper. It's a quick snapshot into the defensive strategy portfolio and understand how did the risks historically of these strategies compare to other benchmarks such as the broad U.S. equity market.

In the top left graph, you can see that all of the strategies used their historical records for five years are significantly less volatile than the broad equity market. Now, we are talking about much more than just observable differences; we're talking about in the case of GM for instance, roughly half of volatility of the equity market, and the others not too far from that.

We also look at factors such as up and down market capture. This is based on the actual history of the defensive strategy composite. It's a composition of

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which can change to over time. And you can see that in up markets it had about 67 percent of the return, and in down markets only provided less than 60 percent of the downside. So less than attractive tradeoff, particularly given the role that we are second -- it's kind of a proof statement that it's been working as designed generally speaking.

And then for each of the current strategies down below, we provided information on their own records. For instance, looking at up market and down market capture as well as their beta or equity market sensitivity. And these are all, generally speaking, in the range that we would expect for the individual strategies and consistent with the objective of this composite.

This is just kind of new framework that was used to analyze this kind of composite in this setting, going forward in these reports. I just want to make sure I covered that.

I'm going to move on unless there are questions to the variable B, quarterly section which is --

MS. EMERY: Quick question. Is our benchmark nearly the index flat, or do we expect some sort of a return?

0069

MR. LYON: All of our benchmarks are from the actual public benchmark. And the category where we use active management, we expect a full market cycle of return premium, and invoke the return premium into the benchmark, so --

MS. EMERY: Do we have risk adjusted return benchmarks?

MR. LYON: We don't have risk adjusted return benchmarks, because we rely on published benchmarks, because they are easily validated and comparable to peers. But we look other risk adjusted metrics, some of which are in this report, like looking at risk return measures, that we're showing graphically in different stages here.

We also look at other factors through our ongoing work in terms of looking at risk adjusted measures information, sharp ratio, those things.

MS. EMERY: Out of curiosity of other Rocaton clients, is that similar or do they have a benchmark that's a premium number of the stated benchmark?

MR. LYON: For public market asset classes, I'm not familiar with any major plan sponsors that have premium built into their benchmarks for public markets.

MS. EMERY: Is it common on the pension

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funds?

MR. LYON: It's common for their liquid markets where there's not a benchmark that reflects the opportunity set. So, for instance, if you're investing in private equity, sometimes people will structure a benchmark. They take the public equity benchmark which had no overlap in terms of constituents and put some type of premium in part to adjust for the liquidity and the differences and the risk of those two different markets.

But we don't have any plans that I'm personally aware of that make those adjustments for public market investments like the variable ones.

Any other questions on Variable A?

Variable B, it's behind tab 2, starts on page 16. And here you can see the asset allocation. We had some discussions about some changes within this portfolio in which we'll update you on further in the executive session.

Some of these pieces have moved subsequent to quarter end, but in general you can see the diversification at quarter end and the assets with approximately $382 million. And the major component of the portfolio is the NISA separate account, the government, the government credit benchmark portfolio.

0071

And you can see on starting page 17 that its general characteristics were fairly similar not exactly the same, but fairly similar to that of a benchmark.

This is a strategy that -- well, it's actively managed is not expected to take significant bets away from the benchmark on a broad portfolio characteristic basis, particularly with respect to how interest rate sensitive it is.

Behind tab 4, we have the other variable options; C, D and E or the international equity inflation protection and socially responsive equity fund for short, and the performance is shown. It's commented on page 21 in some detail as far as the asset levels.

I'm not going to read them off to you, but in general, the international equity fund have strong performance for the quarter and it was ahead of benchmark, similar to the international composite variable funds, because they are unitized when you expect that result.

The inflation protection fund had a very strong absolute return in the 6 percent range, which, for this particular time period, was far above the benchmark. And the estimate, the PTI, which is possibly revised. But nonetheless, whatever revisions they make, it's still expected ahead of it when it's final.

0072

And the social responsive equity fund, while it returned over 10 percent, was still behind its benchmark, and it has been in the shorter term period. So, its longer term record as an investment option is ahead of benchmarks, as is the case for the other two on this page 21.

And then there are profiles of each of these. The international equity starts on page 22, and of course a slice of the international equity composite in Variable A.

The inflation protection is the next one, the bottom of page 25, the primary investment is a PIMCO investment fund which in and of itself invests in other underlying PIMCO funds. And you can see the major holdings and what the focus has been, but they are still pretty significant, focused on alternative bond type of strategies and inflation related strategies within the fund. And not a lot. It's a meaningful amount relative to PIMCO history of equity exposure within the fund.

And lastly, the Neuberger Berman piece of the socially responsive equity fund. This is the primary holding here, and as a reminder that it's a fairly concentrated portfolio currently. At quarter end it had 31 stocks, so this is a fairly active strategy on a quarter-to-quarter basis. We therefore expect an

0073

amount of tracking error of the strategy.

So, that's everything for the quarter report. There is additional market reviews and disclosures in the back.

Does anyone have any questions before I go on to April?

MS. EMERY: I have a question, but it's a little off the topic, for Larry -- have you seen something like this for the pension funds?

MR. SCHLOSS: Like what?

MS. EMERY: Like this report, it seems to have some action (unclear).

MR. SCHLOSS: I have no idea. It probably predated me -- this is as far as I've gotten in the pension funds before you.

MR. LYON: The pension fund reporting that we do is a collaborative effort with the Comptroller's Office, the custodian and Rocaton, where we provide for input from the Comptroller's Office's commentary. And there is a standardized format given the volume of manager's information. So that's one collaborative report rather than several reports.

MS. EMERY: Do you see something in pension funds on an annual basis or --

MR. LYON: This is a variable fund report,

0074

and then we provide input into the regular quarterly report. So, you get one quarterly report for each fund.

MS. EMERY: Is there something we could keep on an annual basis?

MR. LYON: I think we have to kind of take that off line and work with the Comptroller's Office and determine that. I don't know the answer to that.

MS. EMERY: Could you look into that? I guess I'm -- this seems to be very useful and I guess I'm not sure why we're not (unclear).

CHAIRPERSON AARONSON: Move on.

MR. LYON: The next item is the April performance report, and the first one is for the diversified equity fund. As Larry mentioned, it was a relatively flat month for the most part of the markets, and so you will kind of see that in this report.

The first, starting with the asset allocation on the first page, you'll see that was around $9.9 billion in the market value. No major differences, everything was within 1 to 2 percent of targets.

On pages 2 and 3 you can see their performance. This was distributed in advance so I'm not going through it in any detail. But for the month of April, the Variable A return was negative .6. This is net of all fees. And that was within a few basis points

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and for both major benchmarks, the Russell 3000 and the hybrid benchmark.

And the year to date return, the four months through the end of April was positive 11.38 percent. So when we talk about, also for the Variable A fund, maybe a down 6 type month for May. We still have as of May 31st, and that's more than a couple of percent positive return for the calendar year to date period.

And hopefully when we see the results, the defensive composite helped us, at least on a relative basis.

I'm just going to keep going, not seeing any questions.

Variable B, you can see the market value is not that different than what I presented in the quarterly reports. The performance for the month was .29 percent for the option. That was behind benchmark for the year to date basis. We have a positive 1 percent return within three basis points of the benchmark, again on a net of fees basis.

And if you flip in that same handout, again which is sent out ahead, quickly, on page 2, you can see the international equity fund and how that performed during the month, down a little under a percent; but with a percent better than its benchmark. Its year to

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date return is about a percent and a half over the benchmark and still in positive territory.

When you look at May, it's likely that the entire year to date return was erased by May, as opposed to the variable where 60 percent of May has been erased. The all asset fund is up almost a percent, a little behind the benchmark in this case, so strong year to date of around 7 percent, and probably about 60 percent of that return was erased by May.

And lastly, the social responsive equity fund, down about 2 percent, which is a percent and a half less than the benchmark; and probably three-fourths or more of that return was erased during May. But it'd still be in positive territory, about one or two percent type of return through May on a year to date basis.

So, that kind of combined April and then May, a handout on the benchmark by putting that along the way. So unless there are other questions, that's everything we prepared to present for the passport fund's public session.

CHAIRPERSON AARONSON: Okay. We are now going to move into executive session.

MS. MARCH: Yes, I move that, pursuant to public officer Rule 105, we go into executive session to discuss the proposed acquisition, sale or extension of

0077

securities held by the Teachers' Retirement System that's pending, proposed, or current litigation.

CHAIRPERSON AARONSON: Do I hear a second?

MS. EMERY: Second.

CHAIRPERSON AARONSON: Discussion?

Hearing none, all those in favor?

(A chorus of "Ayes.")

Any opposed?

We are now in executive session.

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

CHAIRPERSON AARONSON: We are now back in public session. And in public session we would like to get a review of what we did during our executive session. Susan, would you do that for us, please?

MS. STANG: Absolutely.

In the executive session, in the variable fund, the removal of several managers and contracts were discussed. Consensus was developed, which will be announced at the appropriate time.

Presentations from two investment managers were received add discussed.

In the executive session of the pension fund, there was a discussion of managers on the watch

0249

list.

A presentation and discuss of the small cap manager search was received.

There was a presentation and discussion of a private placement investment program. Consensus was developed, which will be announced at the appropriate time.

There was a presentation and discussion of the bank loan search and process and the asset allocation fixed income. And consensus was reached which will be announced at the appropriate time.

There was a presentation and discussion of the ETI investment. Consensus was developed, which will be announced at the appropriate time.

And there was a presentation and discussion of private equity investment. Consensus was developed, which will be announced at the appropriate time.

CHAIRPERSON AARONSON: Thank you very much.

Is any other business before the board?

Seeing none, do I have a motion to adjourn?

MS. MARCH: So moved.

MR. SCHLOSS: Second.

CHAIRPERSON AARONSON: Any objection?

We are adjourned.

(Time noted: 4:30 p.m.)

0250

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 7, 2012, 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 _____________, 2012.

____

JEFFREY SHAPIRO